

The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF



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Contents.

	PAGE
Professional Notes	1
Chairman's Decisions at Company Meetings (Article)	3
Perquisites and Profits (Article)	5
Indian Income Tax (Article)	7
The Society of Incorporated Accountants and Auditors:—	
Membership	8
Reception and Dance	21
Correspondence:—	
Income Tax and Voluntary Gifts	9
Obituary	9
Depreciation Rates for Income Tax	10
Accountants Dispute	10
Commonwealth Institute of Accountants	10
District Societies	11
Incorporated Accountants' Golfing Society	12
Reviews	13
Changes and Removals	18
Accountant-Lecturers' Association	18
Practical Accountancy and Finance: Lecture by Mr. H. Priestley, F.S.A.A.	14
Finance of Electricity Supply Undertakings in Great Britain: Paper by Sir Harry Haward	21
Scottish Notes	29
Legal Notes	30

Professional Notes.

Mr. W. McINTOSH WHYTE, President of the Incorporated Accountants' Students' Society of London, and Mrs. McIntosh Whyte will be at home to members at Cordwainers Hall, Cannon Street, E.C., on Tuesday, October 5th, from 5 to 6.30 p.m., immediately preceding the opening lecture. The syllabus of the Society for the Autumn session, which was published in our last issue, illustrates the increasing strength and usefulness of this Society. The names of leading members of the Bar and of the Accountancy profession and eminent Government officials have a place on the syllabus either as Lecturers or Chairmen of the meetings.

In a recent issue we referred to the activities of a firm of taxation consultants, styling themselves "late H.M. Inspectors of Taxes," and drawing attention to the provisions of the Finance Act, 1926, which prohibit after September 30th, claims for relief from or for reduction or repayment of duty except in undetermined cases. The firm in question have devoted themselves to intensive concentration on taxpayers who still have outstanding Excess Profits Duty problems, which would seem to indicate that their tenure of office at the Inland Revenue has enabled them to collect information of which they have availed themselves since resigning their posts.

The circulars of another tax specialist, who has not hitherto been under our notice, have come into our possession. His address is in Edinburgh, and he announces that he has resigned his office of "H.M. Senior Inspector of Taxes," to which he was recently promoted, in order to practise as a specialist in matters relating to the tax branches of H.M. Inland Revenue. After setting forth his qualifications, he states that in view of the urgency regarding Excess Profits Duty he will be away from his office a good deal in September, and that he has left a representative in charge who was "until July 31st last employed in Edinburgh tax districts."

The taxation business conducted by the profession, especially in connection with the Excess Profits Duty, has been particularly onerous and anxious, requiring skill and ability of a high order. While the Inland Revenue rightly expect a standard of professional conduct from which accountancy practitioners should not deviate, the latter have a clear and genuine grievance in that persons, whose former connection with the Inland Revenue has never been disclaimed by the authorities, can utilise their past service in a great Government Department for the purpose of undermining confidence in those who have done their utmost to maintain their clients' interests while bearing in mind their obligations to the State in the particularly difficult times through which the country is passing.

A somewhat novel White Paper has been presented to Parliament under the British Sugar (Subsidy) Act, 1925. It contains eight "Statements in the form of Balance-Sheets" transmitted to the Minister of Agriculture (England and Wales) and the Board of Agriculture for Scotland by companies which manufactured in Great Britain in 1925-26 sugar or molasses from home grown beet. These balance-sheets, which

are not accompanied by trading or profit and loss accounts, indicate that during the year five companies made aggregate profits of £89,000 after allowing for depreciation, and three companies made losses amounting to £106,000. The balance-sheet of the ninth company is not included, as it has gone into liquidation for the purpose of reconstruction. The results show that in spite of the subsidy granted by Parliament, the manufacture of sugar at home is not an industry to be rushed into by the uninitiated.

An intimation has been received from the High Commissioner for the Union of South Africa to the effect that sect. 18 of the South African Income Tax Act, 1925, has been repealed with retrospective effect by sect. 7 of the South African Income Tax Act, 1926. The effect of the repealed section was to impose a tax on the sale of goods by any agent within the Union for or on behalf of any person outside the Union.

We understand that several firms in this country have received communications from the Inspector of Taxation, Montreal, quoting the following extract from sect. 3 of the 1924 amendments to the Canadian Income War Tax Act, and requesting them to fill up and return a form showing in great detail the business done by them in Canada:—

"Any non-resident person soliciting orders or offering anything for sale in Canada through an agent or employee, and whether contract or transaction which may result therefrom is completed within Canada or without Canada, or partly within and partly without Canada . . . shall be deemed to be carrying on business in Canada and to earn a proportionate part of the income derived therefrom in Canada."

The Inspector's letter states that this amendment applies from the year 1923 onwards. The power to enforce retrospective legislation of this character will no doubt be challenged by the firms who have been doing agency business in Canada during the last few years.

Sect. 139 of the Companies Acts provides that a compulsory winding up shall commence from the date of the presentation of the petition, and, by sect. 205, dealings with the company's property after the commencement of the winding up are void unless the Court otherwise orders. The practice of the Court in the exercise of this discretion is therefore important, and the cases which have come up for legal decision show that Judges have not hesitated to use their discretion to validate transactions after the date of the petition.

For instance, in a recent case Mr. Justice Romer upheld the issue of a debenture eight days after the petition had been presented, the object being the raising of money to pay wages. In doing so he quoted with approval the following dictum of Lord Cairns in *re The Wiltshire Iron Company, Limited*:—

"Where a company actually trading, which it is the interest of everyone to preserve, and ultimately to sell as a going concern, is made the object of a winding up petition, which may fail or may succeed, if it were to be supposed that transactions in the ordinary course of its current trade, *bona fide* entered into and completed, would be avoided, and would not, in the discretion given to the Court, be maintained, the result would be that the presentation of a petition, groundless or well-founded, would, *ipso facto*, paralyse the trade of the company, and great injury, without any counterbalance of advantage, would be done to those interested in the assets of the company."

The writer of the City Notes in *The Times*, in commenting on the subject of inadequate information in the balance-sheets of public companies, says: "Investments in subsidiary companies are often put together in one item, which is really indefensible, especially when no market value exists by which the valuation may be checked. In any case the report should state what percentage the income from investments bears to the value shown in the balance-sheet." We are not sure that a statement of the percentage referred to would be of much benefit, because where there is any holding-up of profits it is usually done in the subsidiary and not in the parent company; hence the dividends received from the subsidiaries in any year do not necessarily give a correct representation of their profits.

In the Borough of Woolwich a disallowance has been made by the District Auditor of wage payments in excess of the rates recommended by the Joint Industrial Council, and it may be remembered that a similar disallowance last year was upheld by the Divisional Court. It is understood that the matter is being carried to the House of Lords, so that an authoritative judgment on these wages disallowances, which affect Borough Councils other than Woolwich, may be expected.

A report was current towards the end of last month to the effect that authority had been given by the Post Office Savings Bank Department to bring into operation a scheme whereby depositors desiring to withdraw money would have the option of doing

so by crossed warrants negotiable with tradesmen and others. The report was premature and somewhat misleading. An official explanation, which has now been issued, says:—

"The proposals contemplate no more than the adoption for savings bank purposes of an alternative method of payment similar to that already in use in connection with National Savings Certificates and Stock transactions on the Post Office Register. In these cases a form of crossed warrant (not negotiable) payable through a banker is issued, if desired, in order to avoid the necessity of personal attendance at a post office to obtain payment. A similar procedure is being considered as an alternative means of making withdrawals from the Savings Bank, but no definite steps have yet been taken to put the proposals into force."

There seems to have been a general impression that the Post Office was about to undertake the issue of cheques on the lines now in operation on the Continent, which, as will be seen, is entirely without foundation.

In a lecture which we publish this month, Mr. Herbert Priestley, F.S.A.A., of Sydney, New South Wales, gives some useful advice to young accountants, and in this connection he says: "When uncertain about your knowledge of any subject in which you are interested it is a good plan to write all you know about it without reference to any text book or other source of information. You will be astonished sometimes how little of any value you really do know." His advice then is to read up as much as possible on the subject and try again. Incidentally, he gives warning against the blunder of the man who, when asked "What is a vacuum?" replied, "Oh, I have it in my head, but I can't explain it now."

The accounts of the Auckland (New Zealand) Savings Bank present a record of remarkable success. The bank has just celebrated its 79th anniversary, having been founded as long ago as 1846 with funds of about £1,100. The total amount now standing to the credit of depositors is £4,453,000. The first presumption might be that a figure of this magnitude must include many large accounts which are beyond the usual scope of banks of this description, but the indications are that this is not so, as the depositors number no less than 108,421, which gives an average of only £32 per account. Another evidence of the bank's activity and the fluid nature of its business is that the deposits received during the year amounted to £3,876,000, while the withdrawals were £3,762,000. The total assets of the bank amount to £4,871,000, and apart

from actual cash are invested as to 48 per cent. in mortgages, 28 per cent. in Government Debentures, and 15 per cent. in debentures of municipal bodies. There is a reserve against the fluctuation of investments of £405,000, which represents about 10 per cent. of their value. The trustees of the bank have reason to be proud of the success which has been achieved.

Chairman's Decisions at Company Meetings.

THE authority which a chairman has is usually delegated to him by the company through its Articles. Where a number of persons assemble and put a man in the chair they devolve on him, by agreement, the conduct of that body. They attorn to him, as it were, and give him the whole power of regulating themselves individually. Frequently a chairman forgets when presiding over a general meeting of shareholders that he is acting as its representative and not that of the directors. As his authority, apart from the Articles, must be collected from the meeting, it follows that in case of division of opinion the majority is supreme, provided that such majority acts *bonâ fide* and is not endeavouring to coerce the minority. At a meeting of shareholders it is not competent for a majority to come determined to vote in a particular way on any question and to refuse to hear any arguments to the contrary. When the views of the minority have been heard, it is competent to the chairman, with the sanction of a vote of the meeting, to declare the discussion closed and to put the question to the vote. For a majority of shareholders to say "we do not care what one shareholder may say, we being the majority will do what we please," is what the Court will not allow (*Const v. Harris*) (1824) and what a chairman should prohibit.

The primary functions of a chairman are to preserve order, to conduct the proceedings in a proper manner, and to take care that the sense of the meeting is properly ascertained with regard to any question which is properly before the meeting (*National Dwellings Society v. Sykes*) (1894). "It is on him that it devolves both to preserve order in the meeting and to regulate the proceedings so as to give all persons entitled a reasonable opportunity of voting. He is to do the acts necessary for these purposes on his own responsibility, and subject to being called upon to answer for his conduct if he has done anything improperly" (*Reg. v. D'Oyly*) (1840).

In the absence of express provisions in the regulations "the details of the proceedings must

be regulated by the persons present and by the chairman, and if his decision is quarrelled with it must be regulated by the majority of those present" (*Wandsworth Gas Company v. Wright*) (1870). But where the Articles expressly provide for the conduct of meetings, the provisions contained therein must be followed.

It is the duty of the chairman to conduct the meeting in such a way that the business thereof may be facilitated and the results clearly and well defined. It is his bounden duty to maintain his ruling on points of procedure. When he deliberately rules, *e.g.*, that an amendment cannot be put, "it would be improper and indecent for any shareholder to proceed to discuss the propriety of the chairman's ruling" (*Henderson v. Bank of Australasia*) (1890). But if the chairman's ruling be wrong, he is, of course, subject to be called upon to answer for his conduct, and legal proceedings may follow which may result in declaring the proceedings invalid (*Catesby v. Burnett*) (1916).

If the chairman acts reasonably, impartially, *bonâ fide* and in the interests of the meeting, paying some regard to the rights of minorities, he will usually steer clear of those risks which every fair minded chairman avoids, particularly if he remembers that, apart from the Articles, he collects his authority from the meeting. If a chairman acts without malice no action lies against him for ruling a motion out of order, although he may have committed an error of judgment (*Breay v. Browne*) (1897).

The chairman has power to regulate the speaking and decide points of order. *Primâ facie*, every shareholder has a right to be heard on every question, but where a shareholder has spoken for a reasonable time it will be competent for the chairman, at all events with the assent of the meeting, to apply the closure (*Wall v. London and Northern Assets Company*) (1898). In case of dispute he is entitled to determine who should address the meeting, and protect the speaker from interruption.

All incidental questions, *e.g.*, points of order, should be decided by him with the utmost impartiality and fairness, having due regard to the rights of minorities, and the entry by him in the minute book of the result of a poll or of his decision of all such questions, although not conclusive, is *primâ facie* evidence of that result, or of the correctness of that decision, and the onus of displacing that evidence is thrown on those who impeach the entry (*re Indian Zoedone Company*) (1884).

The business transacted at the meeting must fairly come within the scope of the notice given, and it is the undoubted duty of the chairman to decide whether any proposed resolution falls within the scope of the notice. But he is bound to allow the

proposal of all legitimate and germane resolutions and amendments, and a refusal to do so will invalidate the proceedings, because such refusal may amount to a withdrawal of a material and relevant question from the meeting. "I think, then, that the chairman was entirely wrong in refusing to put the amendment, and that the resolutions which were passed cannot be allowed to stand because the chairman, under a mistaken idea as to what the law was which ought to have regulated his conduct, prevented a material question from being brought before the meeting" (*Henderson v. Bank of Australasia*).

The chairman's declaration as to the result of voting, in the absence of a poll on an extraordinary or special resolution, is conclusive. Sect. 69 (8) of the Companies Act, 1908, and Table A, Clause 56, extends this effect of the chairman's declaration to ordinary resolutions. This will prevent any question being re-opened in legal proceedings even if evidence is forthcoming that the chairman's declaration was wrong (*Arnot v. United African Lands*) (1901), unless there is an apparent error, *e.g.*, where he states the number of votes given and they are insufficient (*re Caratal New Mines*) (1902), or it is plain on the face of the proceedings that the requisite majority has not been obtained (*re Clark & Co.*) (1911). Where Articles provided that if votes were not disallowed at the meeting they should be good for all purposes, it was held in *Wall v. London and Northern Assets Company* (No. 2, 1899) that in the absence of bad faith or fraud the resolution could not be afterwards impeached on the ground that votes were improperly received, and in *Beits v. Macnaghten* (1910) it was held that, notwithstanding a declaration by the chairman, the notice of the meeting may be looked at to see if the resolution is in order.

In *Wall v. Exchange Investment Company* (1925) it was held that in the absence of fraud or misconduct the decision of the chairman of an extraordinary general meeting as to the validity of votes received and counted is final and conclusive and cannot be reviewed by the Court where the Articles entrust the chairman with powers to decide whether any votes challenged are to be allowed or not. The chairman acts in effect as if he were an arbitrator chosen by the parties concerned, whose decision is to bind the parties on the question whether these votes are to be treated as valid or not. Acting as an arbitrator, his decision could only be questioned where the award of an arbitrator could be impugned, viz, for fraud, misconduct or *mala fides*. Fraud vitiates all things. Any fraudulent ruling would be vacated by a competent Court. If in this case fraud in counting votes could have been shown, the resolution could not stand. The word "valid" has

no contingent meaning; the decision as to the validity by the person who presides is to be final on that point.

The chairman is not necessarily *functus officio* when he has declared the results of the voting (*Hickman v. Kent Sheep Breeders*) (1920). Before declaring that a motion is lost or carried, a chairman has a right to have a recount if he is uncertain as to who had voted for or against the motion. The correct view from *Hickman's* case appears to be that he is *functus officio* where this recount after the first declaration is not *bonâ fide*, i.e., in such circumstances his first declaration must stand. The chairman should not, it is thought, give his first or original vote after he has ascertained the number for or against the motion; he can only then give his casting vote if he is entitled to one. This first vote can only be properly given at the same time as the other members vote. It is somewhat irregular for anyone to vote at all after the result is known, even though the chairman has not made his formal declaration.

A chairman has no right to adjourn a meeting improperly, even if supported by a majority, since it may result in the minority validly carrying on the business of the meeting, provided it is sufficient to constitute a quorum. In *Catesby v. Burnett* the chairman vacated the chair and declared the meeting closed before the business of the meeting had been completed; the meeting thereupon elected another chairman, continued its proceedings and transacted the unfinished business, which was subsequently held by the Court to be valid and binding on the company.

Perquisites and Profits.

WHETHER a payment is a profit or perquisite and as such liable to tax, or whether it is merely in the nature of a gift and therefore exempt from tax is not always an easy matter to decide. In *Reed v. Seymour* (1926) Mr. Justice Rowlatt held that the proceeds of a professional cricketer's benefit match did not constitute an income, profit or gain, but a mere present not assessable to income tax. The regulations of the club governing this professional cricketer's benefit provided: "The committee reserve to themselves an absolute and unfettered discretion as regards benefit matches, the collection of subscriptions in connection with such matches, and dealing with the net proceeds of such matches in any way they may think desirable in the interest of the beneficiary." The Crown contended (a) that the profit which amounted to £939 16s. 11d. was

for services rendered by the respondent as a professional cricketer; (b) that it was a perquisite of his employment; (c) that it was assessable under Schedule E; and (d) that it was annual profits or gains assessable under Schedule D (1) (b) as not being assessed under any other schedule and not specifically exempt. Mr. Justice Rowlatt dismissed the appeal, and said he could not see any difference between the gate money obtained by the benefit match and the subscriptions. In both cases the payments were made voluntarily and not directly by the persons for whom the respondent worked. The question in every case was whether the payments were earned in the employment or were in the nature of a personal donation perhaps not unconnected with the fact of the employment. The argument for the respondent was that this was a testimonial—a personal gift, and not remuneration. In the language of Lord Loreburn in *Blakiston v. Cooper* (1909): "Where a sum of money is given to an incumbent substantially in respect of his services as incumbent, it accrues to him by reason of his office. Here the sum of money was given in respect of those services. Had it been a gift of an exceptional kind, such as a testimonial or a contribution for a specific purpose, as to provide for a holiday, or a subscription peculiarly due to the personal qualities of the particular clergyman, it might not have been a voluntary payment for services, but a mere present."

The Court of Appeal (Lord Justice Sargant dissenting) allowed an appeal from this decision of Mr. Justice Rowlatt, and held that the proceeds of a professional cricketer's benefit match constituted an income, profit or gain assessable to income tax, since the regulations of the club which employed him showed that the moneys came to him in a manner contemplated by his employment (*Reed v. Seymour* (1926)).

Previous decisions as to what constitute a perquisite or profit include the following:—

In *Inland Revenue v. Strong* (1878), it was held that a gift of money raised by voluntary subscription, and made annually to a minister by his congregation was assessable inasmuch as it was made to him as their clergyman and was received by him in respect of the discharge of the duties of his office. In *Turner v. Cuxon* (1889), the council of the curates' augmentation fund made a grant of £50 to a curate in recognition of faithful service for many years. The grant was renewable at the discretion of the council, and such renewal was upon the condition that the curate obtained donations to the fund to half the amount of the grant. It was held that the amount of the grant was not assessable to income tax. That case was distinguished in *Herbert v. McQuade* (1902), where it was held that grants made from a charitable

fund in augmentation of the income of benefices below a certain yearly value are profits accruing to the holder of the benefice by reason of his office, and therefore taxable, notwithstanding that the grants are purely voluntary and that the corporation distributing the fund cannot be legally compelled to make the payments. In *Turner v. Cuxon*, there was a gift personal to the receiver after fifteen years' work. In *Herbert v. McQuade*, the gift was in augmentation of a benefice made under an organised system irrespective of the persons receiving the gift.

In *Turton v. Cooper* (1905), portions of collections made in a church were paid to the incumbent. They were paid to him by reason of his being incumbent, but they would not have been so paid if he had not been poor. It was held that he was not assessable in respect of the amount so received. Apparently this case was wrongly decided. In *Barson v. Airey* (1925), the appellant, the chairman of directors of a company having interests in China, paid visits to China on behalf of the company, and was awarded by the directors remuneration for his services there. The Articles of Association provided that if any director agreed to go abroad and perform extra services he was to receive remuneration therefor. The appellant was assessed to income tax in respect of the additional remuneration, and on appeal the assessment was upheld. In *Mudd v. Collins* (1925), the appellant, an Incorporated Accountant, and secretary and director of a company who was paid for his services as secretary and director, negotiated the sale of a branch of the company's business, and the directors awarded him a commission for his services in regard to the sale. He was assessed to income tax in respect of the commission. It was held that although the payment of the commission was not made in respect of a duty involved in the appellant's secretaryship and directorship, yet, as the commission was paid to him by his employers as remuneration for work done, it was a payment for the appellant's services in respect of his office, and the assessment was right.

In *Tennant v. Smith* (1892), the House of Lords held that in estimating the total income from all sources the yearly value of a free residence of a bank manager in the bank premises could not be brought into account, especially as he could not sublet it and in the event of ceasing to be manager he was bound to leave the premises. In *Cowan v. Seymour* (1919), the appellant had been secretary and liquidator of a company without any remuneration for his services, and on the termination of his employment he received a gift of money from the shareholders. It was held that the payment was not a profit of an office, but rather a testimonial for past services, and was not assessable to income tax under Rule 1 of Schedule E.

The motive underlying the payment may not necessarily be a factor for consideration. In *Cowan v. Seymour* the payment was deemed to have been a tribute or testimonial for services in the past, as in *Blakiston v. Cooper*, and not a payment for those services.

Where the payment is made in return for and as an acknowledgment of services rendered, such payment might properly be said to arise from an office or vocation as in *Turner v. Cuxon*. In *Mudd v. Collins*, Mr. Justice Rowlatt said: "When a sum was given as a testimonial for work done in the past, not directly as a remuneration for such work, but as a mark of the high regard in which the person receiving the money had been held by those with whom he had been associated, such a payment would not be in respect of his office."

As to the meaning of "profit," in *Tennant v. Smith* Lord Watson said: "I do not think it (i.e., residence in the bank's premises) comes within the category of profits, because that word, in its ordinary acceptation, appears to me to denote something acquired which the acquirer becomes possessed of and can dispose of to his advantage—in other words, money—or that which can be turned to pecuniary account."

In *Reed v. Seymour* Lord Justice Warrington said the law was laid down once and for all in the judgment of Lord Collins in *Herbert v. McQuade*. He said: "If, as the respondent contended, it was in fact a gift personal to himself, I do not think that it would fall within Schedule E; if, on the other hand, it accrued to him by virtue of his office of incumbent, the respondent himself could hardly dispute his liability." Later, after referring to the judgment in *Inland Revenue v. Strang*, Lord Collins said: "Now that judgment, whether or not the particular facts justified it, is certainly an affirmation of a principle of law that a payment may be liable to income tax, although it is voluntary on the part of the persons who made it, and that the test is whether, from the standpoint of the person who receives it, it accrues to him in virtue of his office." Mr. Justice Rowlatt had been influenced by three facts. One was the largeness of the sum in relation to the ordinary remuneration; but he (the Lord Justice) could not see how that made any possible difference in the principle involved. The second fact was the impress of a trust by the club regulations, but that did not make it any the less a sum received in respect of the employment. The third fact was the addition to the gate money of the sums received by subscriptions, but, if that fact were material at all, it only served to emphasise the fact that one sum was received from the employment or office and the other was not.

INDIAN INCOME TAX.

(CONTRIBUTED.)

By the Act of 1922 income tax in India is charged upon any person whose total income of the previous year amounts to over Rs.2,000. It applies to an individual, a company, a firm, a Hindu undivided family, or any other association of individuals. For the purposes of the assessment the income must have accrued, arisen, or been received in British India. Total income of a taxpayer means his income from all sources whether taxed or untaxed. Any receipt of income by a taxpayer as a member of a joint Hindu family is exempt from the computation of total income.

The following incomes are expressly excluded from the operation of this Act:

- (1) Income derived from property held in trust for charitable or religious purposes.
- (2) Income of a religious or charitable institution.
- (3) Income of local authorities.
- (4) Interest on securities of any provident fund which is subject to Provident Funds Act.
- (5) Any capital sum received in commutation of a pension, compensation for death or injuries, in payment of life insurance policies, or accumulated balance to the credit of any subscriber of a provident fund.
- (6) Any special allowance specifically granted to meet expenses incurred in performance of the duties of an office; and
- (7) Any casual or non-recurring receipt.

The tax is levied on a graduated scale. It rises from five pies in a rupee on an income over Rs.2,000 to as much as eighteen pies in a rupee on an income over Rs.40,000.

The tax is collected under six heads. Income from

- (1) Salaries.
- (2) Interest on securities.
- (3) Property.
- (4) Business.
- (5) Professional earnings.
- (6) Other sources.

While the tax in the first two cases is collected by deduction at the source, the tax on the remaining heads is imposed directly.

Under the head of salaries are assessed such incomes as salary or wages, annuity, pension or gratuity, and fees, commission or perquisites. The Act has thrown the burden of collecting this tax on the employers, who are authorised to deduct tax at the appropriate rate from the salaries of their employees every month, provided such salaries amount to Rs.2,000 per year.

Incomes such as interest on the security of the Government of India or local government, or interest on debentures issued by a local authority or a company are also taxed by deduction under the second head. Persons who are responsible for the paying of such interest have to deduct income tax at the maximum rate. Interest on any Government of India security declared to be income tax free is exempt from tax and consequently payable in full. The taxpayer must, however, bring in this interest in the computation of his total income in order to determine the appropriate rate of assessment.

Income from house property is taxed under the third head on the basis of its *bonâ fide* annual value. Usually the annual value for municipal purposes is adopted as the

basis. In cases where the property is occupied by the owner for residential purposes, the annual value is deemed to be 10 per cent. of his total income from all sources. If, however, the property is occupied by the owner for the purposes of his own business, it forms part of his capital, and is therefore not assessable to income tax. In computing income from property the following deductions are allowed to be made:

- (1) One-sixth of the annual value for repairs.
- (2) Fire insurance premiums.
- (3) Ground rent or/and mortgage interest.
- (4) Land revenue.
- (5) Collection charges not exceeding 6 per cent. of the annual value.
- (6) Vacancy allowance as determined by the income tax officer.

The aggregate of such allowances should not, however, exceed the annual value. Loss under this head due to payment of heavy mortgage interest, &c., is therefore not allowed to be set off against profits under any other head.

From the point of view of the tax the most productive and therefore the most important head is that of business. Income from business is computed after allowing for expenses, such as:

- (1) Rent of business premises.
- (2) Repairs to building, plant or furniture.
- (3) Interest on borrowed capital.
- (4) Fire insurance premiums.
- (5) Depreciation at the prescribed rates on the original cost of plant and machinery. Where on account of losses or insufficient profits, full effect to this allowance cannot be given in any year, such allowance or part thereof as could not be set off against profits, may be carried forward and added to the depreciation allowance for the next year.
- (6) Obsolescence allowance.
- (7) Land revenue, local rates, and municipal taxes.
- (8) Any other expenditure which is incurred solely for earning profits and which is not in the nature of capital expenditure.

Though not specifically mentioned, bad debts actually written off are, in practice, allowed as a proper deduction.

Items debited to profit and loss account, such as reserves, partners' salaries or interest, income tax and super tax, and losses made during the previous year, are all treated as an appropriation of, and not a charge against, profits, and are therefore disallowed.

Super tax is defined under the Indian Act as an additional duty of income tax payable on incomes exceeding Rs.50,000 a year, and is levied on a graduated scale ranging from one anna in a rupee to as much as six annas in a rupee on a yearly income of Rs.5,50,000. The basis of assessment is the total income of the previous year as arrived at for income tax purposes. Except in case of non-resident partners or shareholders, it is always payable direct.

The administration of the Act may be conveniently considered under the following heads: where the taxpayer is (1) an individual, (2) a firm, (3) a company, or (4) a Hindu undivided family.

At the beginning of each financial year the income tax officer serves upon any person whose annual income in his opinion is estimated to be over Rs.2,000 a year a notice calling upon him to submit to his office within 30 days an

annual return of his income from all sources. If on receiving the return the officer believes it to be incorrect or incomplete, he calls upon the taxpayer for further information or, as is more usual, for the production of his account books for examination and scrutiny by his own office. On a day appointed the account books are examined by the examiners appointed for the purpose, and a figure of taxable income is arrived at. On receiving the examiners' report, the officer hears the taxpayer personally, or through his agent authorised in writing, on the points raised in the report, and then proceeds to assess him at an appropriate rate both for income tax and super tax. A demand is then issued for payment of these taxes on or before a specified date. If, however, the taxpayer should feel aggrieved at the assessment of the officer, he has a right to appeal to the Assistant Commissioner of Income Tax within 30 days of the receipt of such notice. A hearing is fixed for the appeal, and the taxpayer or his authorised agent is given an opportunity to argue the points raised. After hearing the taxpayer, the Assistant Commissioner may either confirm, reduce, cancel or enhance the assessment. No enhancement of tax is allowed unless the taxpayer is given a reasonable opportunity to show cause against the enhancement. In case of enhancement or imposing of a penalty for false declaration a further right of appeal lies with the Commissioner of Income Tax. On a point of fact his decision is final, although on a point of law a further right of reference to the High Court is given to the taxpayer. But where a person fails to comply with the notice of the officer for the return of his annual income, unless a reasonable cause is shown against such non-compliance, an arbitrary assessment is made on an estimated income, and the taxpayer loses all right of appeal.

The rules and procedure adopted in cases of the assessment of a firm, a company, or a Hindu undivided family are exactly the same as above.

The Indian Income Tax Act distinguishes for the purposes of assessment between firms that are registered and firms that are unregistered. Registered firms are those that are constituted under an instrument of partnership, specifying individual shares, the prescribed particulars of which are registered with the Income Tax Office on or before the date when the annual return is due. Unregistered firms are those that are not so registered. Registered firms are assessed at the maximum rate, but the individual partners concerned are allowed the right of refund on the difference between the maximum rate and the rate applicable to their individual total income on their share of profits in the firm. Unregistered firms are assessed like individuals at an appropriate rate, and no right of refund is allowed to the partners. Registered firms, besides, pay no super tax. Super tax is paid by the individual partners of a registered firm on their individual income if it amounts to over Rs.50,000. Unregistered firms do pay super tax on their own profits, but in that case super tax is not payable by the individual partners on their proportionate share of firm's profits.

In case of a company, the annual profits are assessed to income tax at the maximum rate, whatever its profits. Super tax is levied on a company at a flat rate of 1 anna in a rupee if its profits amount to over Rs.50,000. While income tax may be claimed back by a shareholder by way of refund calculated on the basis of the difference between the maximum rate paid by the company and the actual rate applicable to his personal income, super tax paid by the company is not refundable.

A joint Hindu family is treated as an artificial person, and is assessable to income tax as well as super tax.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our August issue:—

ASSOCIATES TO FELLOWS.

- CAMPBELL, JOHN, Accountant to Urban District Council of Oldbury, Council Offices, Oldbury.
CROCKETT, ROWLAND GEORGE (Stephenson, Smart & Co.), 2a, Whiting Street, Bury St. Edmunds, Practising Accountant.
EVANS, JAMES JOHN (Saunders, Horton & Co.), The Cardiff Chambers, 29/31, St. Mary Street, Cardiff, Practising Accountant.
GEORGE, CLARENCE FRANCIS, Assistant Director of Commercial Audit, Indian Audit and Accounts Service, Delhi, India.
GERRARD, WILLIAM HESFORD, Accountant to Urban District Council, Town Hall, Bingley.
HORTON, ALFRED PERCY (Saunders, Horton & Co.), The Cardiff Chambers, 29/31, St. Mary Street, Cardiff, Practising Accountant.
MOORE, MINNIE EMILY, Evelyn House, 62, Oxford Street, London, W.1, Practising Accountant.
PAYNE, CHARLES CURTIS, 12, Upper King Street, Norwich, Practising Accountant.
WILLIAMS, ERNEST, 12, Newton Street, Piccadilly, Manchester, Practising Accountant.
WILSON, THOMAS LINTON (Barbour & Wilson), 34, South John Street, Liverpool, Practising Accountant.

ASSOCIATES.

- ADLER, JOSEPH, City Treasurer's Department, Town Hall, Manchester.
ALLEN, ALBERT STUART, Clerk to Spicer & Pegler, Bartlett House, 9, Basinghall Street, London, E.C.2.
ANTHONY, ALFRED EDMUND, Clerk to W. Elles-Hill & Co., 17, Throgmorton Avenue, London, E.C.2.
BAKER, BERNARD STUART, Assistant Accountant, H.M. Stationery Office, Westminster, London, S.W.1.
BAKER, WALTER BEATTIE, Clerk to Whiting, Green & Co., 2, Nene Quay, Wisbech, Cambs.
BARBER, ARTHUR, Clerk to Wm. Chadwick & Sons, 6, Hamnett Street, Hyde, Ches.
BARNES, HAROLD HOLMES, Clerk to Begbie, Robinson, Cox & Knight, 3, Raymond Buildings, Gray's Inn, London, W.C.1.
BARNES, RONALD HENRY, Clerk to Walter Johnson, 28, High Street, Swindon, Wilts.
BELL, ISAAC EDWARD, Clerk to Harper & Petticrew, 10, Arthur Street, Belfast.
BEWLAY, HUBERT JOHN, 30, London Street, Southport, Practising Accountant. (Re-admitted.)
BROAD, WILLIAM CHARLES, Clerk to Deloitte, Plender, Griffiths & Co., 5, London Wall Buildings, London, E.C.2.
CALDWELL, WILLIAM GREGSON, Clerk to Barbour & Wilson, 34, South John Street, Liverpool.
CLARK, GEORGE REGINALD, County Accountant's Department, Cumberland County Council, The Courts, Carlisle.
COATES, FREDERICK GEORGE, Accountant's Department, Metropolitan Water Board, 173, Rosebery Avenue, London, E.C.1.
DARRARI, MANECKJI DADABHOY, B.Com., Clerk to S. B. Billimoria & Co., 113, Esplanade Road, Fort, Bombay.
DAVIDSON, JAMES HENRY, Clerk to Thomas May & Co., Grey Friars, Leicester.
DIXON, HAROLD, Clerk to Cooper & Cooper, 60 & 62, Spring Gardens, Manchester.
DOMINY, FRANK CYRIL, Clerk to Howell & Sons, 2, Broad Street Place, London, E.C.2.

DUNN, FREDERICK STEWART, A.C.A. (Dunn, Hornby & Co.), P.O. Box 312, Nairobi, Kenya Colony, Practising Accountant.

EDWARDS, PHYLLIS, Clerk to Hilton, Sharp & Clarke, 4, Pavilion Buildings, Brighton.

FARTHING, WALTER LESLIE, Clerk to Walter Clayton, Milton Street, Nottingham.

FRICKER, ERNEST STANLEY GIBBS, Clerk to Allan, Charlesworth & Co., 4, Fenchurch Avenue, London, E.C.3.

FULLER, FREDERICK, Clerk to Nutt & Horne, St. James's Chambers, St. James's Street, Derby.

GODFREY, CYRIL HENRY, Clerk to Howell & Sons, 2, Broad Street Place, London, E.C.2.

GRIFFITH, GLYN MEURIG, Clerk to Griffith & Miles, 6, Fisher Street, Swansea.

HALL, ALFRED CHARLES, Clerk to James Grimwood & Co., St. Stephen's House, 2, Coleman Street, London, E.C.2.

HAYWARD, HAROLD LESLIE, Clerk to Spicer & Pegler, Bartlett House, 9, Basinghall Street, London, E.C.2.

HEALD, FRANK, Clerk to Peat, Marwick, Mitchell & Co., Grey's Building, 53, Grey Street, Middlesbrough.

HELEY, WILLIAM HAROLD, Clerk to Henry Portlock & Co., 186, Bishopsgate, London, E.C.2.

HENDERSON, ERNEST, Borough Accountant's Office, Guildford.

HOLROYD, FREDERICK ERNEST, Clerk to Buckley, Hall, Devin & Co., Pearl Chambers, East Parade, Leeds.

KELLY, FRANCIS NOEL, Clerk to William A. Deevy, Land Bank Chambers, Waterford.

KENDALL, CYRIL ERNEST, Clerk to Herbert Godkin & Co., 8/11, De Montfort Chambers, Horsefair Street, Leicester.

LANE, SYDNEY, County Accountant's Department, Shire Hall, Nottingham.

LEGG, MARJORIE MARY, Clerk to Walter J. Smith & Son, St. Bartholomew Chambers, 61, West Smithfield, London, E.C.1.

LEWELLYN, ALFRED JOHN, Clerk to H. Kingston & Co., 28, Monument Street, London, E.C.3.

LOYD, CHARLES YATES, Clerk to Fred Hargreaves & Co., Bow Chambers, 55, Cross Street, Manchester.

MCCLEAN, HERBERT WILLIAM, Clerk to Harper & Petticrew, 10, Arthur Street, Belfast.

McKAY, CHARLES DONALD, Clerk to Salisbury, Beaton & Raynham, P.O. Box 245, Kimberley, South Africa.

MASON, HAROLD, Clerk to Hodgson, Harris & Co., 135, Fenchurch Street, London, E.C.3.

NEARY, JOHN, Clerk to Kean & Co., 46 & 47, Dame Street, Dublin.

NIXON, ALBERT ERNEST, Clerk to F. Geen & Co., Victoria Chambers, Liverpool Road, Stoke-on-Trent.

PARSONS, ALBERT VICTOR, Clerk to Gérard Van de Linde & Son, 4, Fenchurch Avenue, London, E.C.3.

PENKETHMAN, HAROLD, Clerk to E. W. Walker & Son, 4, Chapel Walks, Cross Street, Manchester.

PRESTON, HAROLD MAXWELL, Clerk to C. W. Preston, Humber Chambers, 50, Market Place, Hull.

PURTELL, PATRICK JOSEPH, LL.B., A.C.A. (Purcell & Co.), 16, College Green, Dublin, Practising Accountant.

ROSE, GEORGE GASKELL, Clerk to F. Walmsley & Co., 380/386, Produce Exchange, Hanging Ditch, Manchester.

ROXBURGH, JAMES MURDOCH, Clerk to James M. Brodie & Co., 73, Princes Street, Port Glasgow.

SCOTT, ROBERT DOWIE, Clerk to C. H. Warburton & Co., Coopers Buildings, Church Street, Liverpool.

SHEPHERD, CYRIL GODFREY, Clerk to Edward Clough, Masonic Buildings, Cooke Street, Keighley.

SIBSON, JOHN (John Sibson & Co.), 27, Brazenose Street, Manchester, Practising Accountant. (Re-admitted.)

SIMPSON, ERNEST WILLIAM, Clerk to Douglas Mackelvie & Co., Dominion House, 141, Longmarket Street, Cape Town, South Africa.

STABLES, WILLIAM HENRY, Clerk to Ward & Clarke, 51, Highgate, Kendal.

STANTON, SIDNEY ALFRED, Clerk to Stone, Porter & Stone, 43, King William Street, London, E.C.4.

STEEL, GEORGE EDWIN, Clerk to Lewis Vizard & Son, 2, Clarence Parade, Cheltenham.

STEWART, FREDRIC KEITH, Finance Division, H.M. Office of Works, Storey's Gate, Westminster, London, S.W.1.

TAYLOR, MAURICE BASIL, Clerk to Beavis, Walker & Co., 53, New Broad Street, London, E.C.2.

THOMSON, ROBERT JAMES, Clerk to Salisbury, Beaton & Raynham, P.O. Box 245, Kimberley, South Africa.

THRESHER, FREDERICK JAMES, Clerk to G. W. Warner, 55, Maitland Street, Bloemfontein, South Africa.

TURNER, FRANK HENRY, Clerk to Spicer & Pegler, Bartlett House, 9, Basinghall Street, London, E.C.2.

WAKELING, CHARLES EDWARD, 10, Serjeants' Inn, London, E.C.4, Practising Accountant.

WELFORD, LESLIE ROY, Clerk to Veitch & Co., 9, Coleman Street, London, E.C.2.

WHITE, GERALD FRANCE, Clerk to Keeling & Co., 13a, Finsbury Square, London, E.C.2.

WHITNALL, CHARLES DUDLEY, A.C.A. (Charles R. Whitnall and Son), Adelphi Bank Chambers, 19, South John Street, Liverpool, Practising Accountant.

WRIGHT, ARTHUR THOMAS ROBERTS, Clerk to Spence, Paynter & Morris, 6, Wardrobe Place, Doctor's Commons, London, E.C.4.

Correspondence.

INCOME TAX AND VOLUNTARY GIFT.

To the Editors *Incorporated Accountants' Journal*.

SIRS,—I should be grateful to have your valued opinion upon the following point with reference to the law of income tax:—

A, for many years manager of a trading concern, ceased occupation upon the business being sold to another concern. Upon dividing the capital of the business, the partners presented A with a cheque value £500 "with regrets that their long association was terminated and with best wishes for the future." After certain formalities had been completed, the purchasers of the business had no further use for A, and it was necessary for him to find employment elsewhere.

For many years he had been in receipt of a reasonable salary, but his terms of employment did not entitle him to, nor could he anticipate, an additional sum either as deferred salary or bonus upon ceasing to hold the position.

A's income tax return now shows a source of income not previously held (the investment of £500), and it is anticipated that H.M. Inspector of Taxes will inquire how the money was obtained.

Is the gift—

(1) One of capital, and not taxable? or

(2) Can it be construed to be income of the recipient in the nature of deferred salary because of his employment with the firm?

Yours truly,

INTERESTED.

[Assuming that the partners did not charge the £500 as a business expense for income tax purposes, the amount appears to be clearly a voluntary gift of capital and therefore not assessable on the recipient. See also article in another column on "Perquisites and Profits."—EDS., *I.A.J.*]

Obituary.

FRANCIS WILLIAM HARRY CLARKE.

We regret to report the death of Mr. F. W. H. Clarke, an Associate of the Society, which took place in Leicester on August 31st. The deceased, who was only 29 years of age, was junior partner in the firm of F. W. Clarke & Co., Incorporated Accountants, Corridor Chambers, Market Place, Leicester. He was also a member of the Institute of Chartered Accountants, having passed their Final examination with honours.

DEPRECIATION RATES FOR INCOME TAX.

The following is supplementary to the Schedules published in our issues of February, 1926, September, 1925, and previous dates. The rates of depreciation given below have been agreed by the Board of Inland Revenue, subject to the concurrence of the Income Tax Commissioners.

MANUFACTURERS OF MACHINE TOOLS

(exclusive of grinding and other similar machinery).

1.—Allowance on the written down value to be:—

- (a) 5 per cent. on steam engines, boilers and shafting;
- (b) 7½ per cent. on other (including electrical) plant and machinery.

2.—All additions to and replacements of plant and machinery are to be charged to capital, but all repairs and all renewals and replacements of parts which do not destroy the identity of the machine will be allowed as a revenue charge.

3.—The arrangement is to have effect for the year 1926-27 and future years.

4.—No allowance for wear and tear is to be made in respect of furnaces, but in lieu thereof the cost of repairs and replacements and rebuilding will be allowed as a charge against revenue as and when incurred, provided that the cost of additional furnaces and of all extensions to and enlargements of existing furnaces is to be treated as a capital charge.

5.—The arrangement extends to all members of the Machine Tool Trades Association using plant and machinery within the terms of the above definition, and in the case of composite concerns applies only to plant and machinery so used.

MANUFACTURERS OF SYNTHETIC DYE-STUFFS.

Plant and machinery employed in the manufacture of a range of intermediate products from the primary substances contained in coal tar when accompanied by the manufacture of synthetic dye-stuffs therefrom.

1.—No allowance to be made in respect of:—

- (a) Nitric acid plant, or plant consisting of glass, silica, earthenware, or other similar material as distinct from metal;
- (b) Pipes and electric cables;
- (c) Railway sidings, except the rails; but in lieu thereof the cost of repairs and reinstatement to be allowed as a charge against revenue as and when incurred.

2.—Allowances for wear and tear to be made at the following rates upon:—

- (a) Locomotives, 4 per cent.;
- (b) Railway wagons (ordinary), 5 per cent.;
- (c) Boilers, steam engines and shafting, coal handling plant and feed pumps, 5 per cent.;
- (d) The rails of railway sidings, 6 per cent.;
- (e) Electric motors, dynamos, ice making plant (excluding any steam power plant), and open railway wagons used exclusively for the conveyance of specially deleterious substances, 7½ per cent.;
- (f) All other plant and machinery, 15 per cent.;

all on written down value.

3.—All additions to and replacements of plant in respect of which an allowance for wear and tear is made to be charged to capital, provided that all repairs and renewals and replacements of parts which do not destroy the identity of the particular machine are to be allowed as a revenue charge.

Provided that for the purposes of this clause each of the constituent parts (*e.g.*, vats, autoclaves, &c.) of a "battery" constituting a single unit, and each rail of the railway sidings shall be taken to be a separate machine.

4.—The arrangement to apply to the year 1921-22 and subsequent years, and in the case of composite concerns to apply only to plant and machinery employed within the terms of the definition as set out above.

ACCOUNTANTS DISPUTE.

In the Vacation Court, on September 1st, Mr. Justice Fraser heard a motion by Lovewell, Blake & Co., Chartered Accountants, of Great Yarmouth and Lowestoft, for an injunction restraining Mr. Austin Garratt, Victoria Mansions, Kirkley Cliff, Lowestoft, from carrying on an alleged competing business at Lowestoft, or within a radius of twelve miles of that town.

Mr. Evershed, for the plaintiffs, said the subject matter of the motion was a partnership formed in 1908. It was a clause of the partnership agreement that the defendant should not carry on the business of a Chartered Accountant as mentioned. The partnership was ended by a three months notice given on August 10th last, but, notwithstanding the clause in question, on the very same day the defendant proceeded not only to circularise the plaintiffs' clients but also announced that he intended to set up a competing business in Lowestoft.

Mr. Turner, for the defendant, said he had offered a reasonable undertaking until the trial of the action, which the plaintiffs would not accept. Defendant denied the allegations, and he (Counsel) submitted that the restriction clause in the agreement was altogether too wide, as it was for life, and quite unreasonable, and that in any case the plaintiffs had not made out a case for an injunction.

His Lordship granted an injunction pending the trial, and he granted facilities for a speedy trial of the action.

In the Vacation Court, on September 9th, before Mr. Justice Bateson, Counsel applied, in the action of Garratt against Lark, for the appointment of a receiver and manager in the partnership business of Lovewell, Blake & Co., Chartered Accountants, of Lowestoft; also that plaintiff should have liberty to proceed with the winding up of the partnership, and for directions as to appointments held by plaintiff of a fiduciary nature.

Counsel said that the partnership began in 1908, and was determined in August last by notice served by the defendant, Mr. A. E. Lark, on the plaintiff, Mr. Austin Garratt. By the partnership agreement plaintiff was to receive a fixed salary, but for the past few years that had been largely exceeded and plaintiff had also shared in the profits. Owing to the modification of the agreement plaintiff claimed that he was entitled to an interest in the assets of the partnership other than the goodwill, and consequently that he was entitled to have a receiver appointed. Plaintiff had no objection to the appointment of defendant as receiver so long as he kept accounts of the business.

Counsel for Mr. Lark said he could not give any undertaking because his contention was that plaintiff had no right to any accounts and there was no case for any interlocutory relief. Proper accounts were, however, being kept.

Mr. Justice Bateson said that on that statement of Counsel the motion would stand over till next term, and there would be liberty to apply with respect to the appointments of a fiduciary nature held by plaintiff.

Commonwealth Institute of Accountants.

The list of members of the above Institute shows that at December 31st, 1925, the membership totalled 2,960, consisting of 309 Fellows, 1,113 Associates, 1,526 Licentiates, 11 Honorary Members, 6 Corresponding Members and 3 Life Members. The life members and most of the corresponding members are also Fellows of the Institute.

The membership is divided over the various states of the Commonwealth as follows:—Victoria, 1,412; New South Wales, 618; Queensland, 327; South Australia, 148; West Australia, 274; Tasmania, 91. There are also 20 members in Great Britain, 26 in New Zealand, and 44 in other parts of the world.

District Societies of Incorporated Accountants.

MANCHESTER.

The following classes have been organised in the Municipal High School of Commerce especially for articled clerks who desire to read for the Associateship (A.S.A.A.), May, 1927, examinations of the Society of Incorporated Accountants and Auditors. A particular feature of the course will be the setting of test papers.

Time Table.

INTERMEDIATE EXAMINATION.

Monday, 8 to 9, Income Tax. Tuesday, 6 to 7, Auditing; 7 to 8, Accounts; 8 to 9, General Commercial Knowledge. Wednesday, 7 to 8, Rights and Duties of Liquidators, &c.; 8 to 9, Commercial Law. Thursday, 6 to 8, Accounts; 8 to 9, Cost Accounts.

FINAL EXAMINATION.

Monday, 6 to 7, Economics (September to December). Tuesday, 6 to 7, Mercantile Law; 7 to 9, Accounts; 9 to 10; General Commercial Knowledge. Wednesday, 6 to 7, Rights and Duties of Liquidators, &c.; 7 to 8, Company Law; 8 to 9, Auditing. Thursday, 6 to 7, Cost Accounts (September to December); 6 to 7, Economics (January to May); 7 to 8, Statistics.

Fees: Intermediate Course, £2 2s.; Final Course, £2 2s.

LECTURING STAFF.

The legal subjects will be taken by Mr. R. J. Walker, LL.B. (Hons.), Solicitor (Hons.), Mr. A. H. Berman, B.A., B.Sc., Barrister-at-Law, Mr. G. J. Webber, LL.B. (Hons.), Barrister-at-Law. The accountancy classes will be conducted by Mr. W. Pickles, B.Com., A.C.A. (Hons.), A.S.A.A. (Hons.), Mr. E. Miller, A.C.A., Mr. W. A. Nixon, F.C.A., F.S.A.A., Mr. H. J. Lunt, F.C.A., Mr. E. Gordon Turner, A.C.A. The economic subjects will be taken by Mr. A. Glenn, B.Com., Mr. J. H. Littler, B.Com.

NOTTS, LEICESTER, DERBY AND LINCOLN.

ANNUAL MEETING.

The seventeenth annual meeting of this Society was held at the Reform Club, Nottingham, on September 8th. The President (Alderman E. Harlow, J.P.), occupied the chair, and was supported by Mr. R. H. Mason, Mr. H. Harris, Mr. T. E. Clarke, Mr. A. E. Cleveland, Mr. F. A. Prior (Secretary) and a large gathering of members.

The President moved the adoption of the report and accounts, which showed a satisfactory record for the session 1925-26. He especially congratulated the three members who had taken Honours in the Society's examinations.

The Hon. Secretary read a letter from the President resigning his office. Mr. Prior voiced the feelings of the Society in saying how this step was regretted by all the members, and thanked Mr. Harlow for all he had done for the Society during the sixteen years he had held office. Mr. Harlow felt that it was time someone else occupied the chair, as he thought it detrimental to the best interests of the Society that any one man should hold the office of President for too long a time.

After a vote of thanks to the retiring President had been unanimously carried, Mr. J. N. Nutt (Derby) was elected President for the ensuing year.

Mr. F. A. Prior (Hon. Secretary) also tendered his resignation after holding the position for eight years. A vote of thanks was passed to him for the excellent way in which he had carried out his duties. Mr. Prior was then elected a Vice-President of the Society.

Mr. S. I. Wallis (Nottingham) was elected Hon. Secretary.

After the election of the various committees, the meeting terminated with a vote of thanks to the Chairman.

Report.

The Committee have pleasure in presenting their seventeenth annual report and accounts for the year ended April 30th, 1926.

ACCOUNTS.

After charging depreciation on library, the accounts show a surplus of income over expenditure for the year of £35.

The Committee desire to express thanks to the Council of the Parent Society for a grant.

MEMBERSHIP.

The membership at April 30th, 1926, was:—

Practising members	39
Non-practising members	91
	130

REVIEW OF THE SOCIETY'S WORK.

During the session 1925-26 ten lectures, one debate and one mock shareholders' meeting were held. The standard of the lectures was again high, but your Committee have again to express their regret that the support rendered by members left much to be desired. In addition to the time involved and expense incurred in the arrangement of the syllabus, your Committee feel that the eminent lecturers are somewhat disappointed in addressing such small meetings.

The debate held during the session was keenly contested, and the speeches reached a high standard.

ANNUAL DINNER.

The annual dinner was held at Nottingham in November, 1925. This event was not so successful as in previous years owing to the exceptionally bad weather conditions which prevailed that night.

EXAMINATIONS.

Eleven students passed the Final examination and sixteen the Intermediate examination of the Parent Society. Mr. S. H. Bladon took the First Place in honours, Mr. S. I. Wallis the Fourth Place in honours at the Final examination; also Mr. C. F. Carlisle the Fourth Place in the Intermediate examination.

The Committee tender their congratulations to the candidates.

YORKSHIRE.

Annual Report.

The following are extracts from the thirty-second annual report for the year ending June 7th, 1926:—

MEMBERSHIP.

The number of members on the roll is 292, made up as follows: 48 Fellows, 109 Associates, 140 Students.

During the year eighteen members have resigned owing to removal elsewhere and retirement from practice.

All members in practice are invited to join and draw the attention of their staff to the advantage of joining the District Society.

LECTURES AND DISCUSSIONS.

The following lectures and meetings were arranged for the 1925-26 session, and were well attended by a good number of senior and student members, the average attendance being 51.

1925.

- Sept. 25th. Annual Meeting, Dinner and Concert.
- Oct. 6th. "Executorship Law," by Mr. J. W. Bromley, Solicitor, Leeds.
- Oct. 20th. "Statistics and their Application to Commerce," by Mr. A. Lester Boddington, F.S.S., London.
- Nov. 3rd. Mock Creditors' Meeting—Joint Meeting with the Bradford District Society of Incorporated Accountants.
- Nov. 18th. "The Return to the Gold Standard," by Professor D. Knoop, M.A.
- Dec. 1st. "Income Tax with regard to Sect. 34 Claims, and Super Tax in relation to Companies," by Mr. H. W. L. Reddish, A.C.A.
- Dec. 15th. "Examinations," by Mr. Wm. Claridge, M.A., F.S.A.A., Bradford.

1926.

- Jan. 19th. "Income Tax," by Mr. Roger N. Carter, F.C.A. Manchester.
- Feb. 2nd. "Conversion of a Business into a Private Company," by Mr. Herbert W. Jordan, London.
- Feb. 16th. Mock Shareholders' Meeting—Joint Meeting with the Bradford District Society of Incorporated Accountants.
- Mar. 2nd. "Examination Hints in Costing and Accountancy," by Mr. E. Miles Taylor, F.C.A.
- Mar. 16th. "Problems in Partnership Accounts," by Mr. C. A. Sales, LL.B. (Lond.), F.S.A.A.

EXAMINATIONS.

The following members were successful at the November and May examinations of the Society:—*Final*: Mr. W. H. Banks (Leeds), Mr. C. E. Coatesworth (York), Mr. S. Croudson (Leeds), Mr. H. Derwich (Leeds), Mr. S. J. Drury (Leeds), Mr. K. D. Dyson (Huddersfield), Mr. R. Kendall (Leeds), Mr. H. Lazenby (Leeds), Mr. R. O. Naylor (Kendal), Mr. F. V. Rowden (Leeds). (Fourth Certificate of Merit, November, 1925), Mr. C. Clive Saxton (Barnsley) (Fourth Certificate of Merit, May, 1926), Mr. G. H. Scott (Leeds), Mr. J. W. H. Still (Leeds). *Intermediate*: Mr. H. R. Ellis (Leeds), Mr. R. D. France (Leeds), Mr. W. C. Hellewell (Leeds), Mr. L. Heron (Halifax), Mr. H. N. Howorth (Leeds), Mr. G. E. Lamb (Leeds), Mr. M. Myers (Leeds) (Sixth Place Certificate), Mr. H. Oldroyd (Leeds), Mr. S. Smith (Leeds), Mr. C. Tordoff (Leeds), Mr. R. C. Wright, B.A., LL.B. (Leeds) (Sixth Place Certificate).

ANNUAL MEETING, DINNER AND SOCIAL GATHERING.

A large number of senior and student members attended the annual meeting, held in the Oak Room of the Liberal Club, Leeds, on September 25th, 1925, after which dinner was served in the large dining room of the Club.

At the close of the dinner the President's badge of office was officially handed over to Mr. Fredk. Holliday, F.S.A.A., by Mr. J. W. Carter, F.S.A.A.

Students' Courses.

In the department of professional training of the Leeds Central School of Commerce the following courses have been arranged in conjunction with the Yorkshire District Society of Incorporated Accountants for the assistance of students desiring to qualify as Incorporated Accountants:—

P.A. (1)—INTERMEDIATE COURSE.

FIRST YEAR—

- | | | |
|-----------------------------------|---------------|-----------|
| Book-keeping and Accounts .. | } 2 hours .. | Friday. |
| General Commercial Knowledge .. | | |
| Commercial Law I. | } 1½ hours .. | Monday. |
| Mercantile Law | | |
| Company Law | | |
| Law for Accountants I. | } 1½ hours .. | Thursday. |
| Bankruptcy Law | | |
| Powers and Duties of Liquidators) | | |

SECOND YEAR—

- | | | |
|----------------------------------|---------------|------------|
| Book-keeping and Accounts .. | } 2 hours .. | Friday. |
| General Commercial Knowledge .. | | |
| Commercial Law II. | } 1½ hours .. | Tuesday. |
| Mercantile Law | | |
| Company Law | | |
| Law for Accountants II. | } 1½ hours .. | Wednesday. |
| Powers and Duties of Trustees .. | | |
| and Executors | | |

P.A. (2)—FINAL COURSE.

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|--|---------------|---------|
| Advanced Accounting and Auditing | } 2½ hours .. | Monday. |
| General Knowledge in regard to Commerce and Finance .. | | |

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|---|--------------|------------|
| Commercial Law III (including Partnership Law and Company Law) | } 2 hours .. | Friday. |
| Law for Accountants III (Powers and Duties of Liquidators, Trustees, Executors and Receivers) | | |
| Statistical Methods | 1 hour .. | } Thursday |
| Economics | 2 hours .. | |
| or Banking, Currency, and Foreign Exchange | 1½ hours .. | |
| | | |

The Lecturing Staff includes the following:—Mr. S. C. Barker, A.S.A.A., Mr. R. B. Breckin, A.C.A., Mr. S. Croudson, A.S.A.A., Mr. J. A. Farrow, A.S.A.A., Mr. C. Fleetwood, A.S.A.A., Mr. R. H. Johnstone, F.C.A., Mr. J. R. Moger, A.S.A.A., and Mr. W. E. Storr, A.S.A.A. Fees: Full Course—Intermediate (First or Second Year) or Final, 40s.; Single Subject, 15s.

The New President.

An informal dinner was given by the members of the Yorkshire District Society on September 24th at Leeds. Mr. Frederick Holliday, retiring President, occupied the chair. In the course of the proceedings he invested the new President, Mr. Alfred Walton, F.C.A., F.S.A.A., with the badge of office. Mr. Holliday referred to the professional progress made by Mr. Walton during the 30 years he had been engaged in the profession in Leeds. Mr. Walton, in thanking Mr. Holliday for his kind remarks and the members for electing him to the office of President, remarked that the activities of the life of a professional accountant were of a strenuous character at the present time. He believed that the profession was growing in importance as time went on. He referred to the work of Sir Charles Wilson on behalf of Yorkshire Incorporated Accountants, and also to his public work, particularly in the House of Commons. Other speakers included Mr. J. W. Carter, of Leeds, and Mr. W. Claridge, of Bradford.

INCORPORATED ACCOUNTANTS' GOLFING SOCIETY.

A meeting of members of the Incorporated Accountants' Golfing Society was held on September 27th. Mr. George Stanhope Pitt occupied the chair, and was supported by Mr. W. McIntosh Whyte, Mr. W. H. Payne, Mr. A. A. Rattray, Mr. B. de V. Harcastle, Mr. Archibald T. Keens, and Mr. A. A. Garrett.

Mr. McIntosh Whyte made a statement as to the desirability of renewing the activities of the Incorporated Accountants' Golfing Society, in regard to which he had recently inserted a letter in the *Incorporated Accountants' Journal*. He had received intimation from a number of members that they would support a Golfing Society. It was resolved that the Incorporated Accountants' Golfing Society be continued.

Draft constitution and rules were submitted, which the Chairman put to the meeting and which were adopted unanimously.

ELECTION OF CAPTAIN AND OFFICERS.

It was resolved that Mr. McIntosh Whyte be elected Captain for the ensuing year. Other officers were elected as follows:—Committee: Mr. A. B. King Farlow, Mr. Thomas Keens, Mr. Ewart Morgan, Mr. G. S. Pitt; Hon. Secretary, Mr. Archibald Thomas Keens, Bilbao House, New Broad Street, London, E.C.2.

AUTUMN MEETING.

It was decided to hold an Autumn Meeting at Edgware Golf Course on Thursday, October 14th. Members of the Society desiring to take part are requested to communicate with the Honorary Secretary as above.

Reviews.

Methods of Amalgamation. By A. E. Cutforth, C.B.E., F.C.A. London: G. Bell & Sons, Limited. (298 pp. Price 25s. net.)

Although this work is devoted chiefly to the subject of amalgamations, a good deal of the matter relates to the valuation of businesses which may apply to other circumstances than that of amalgamation, and consequently the author has extended his title to embody valuation of businesses for amalgamation and other purposes. Amalgamations may be brought about in various ways, either by a pure absorption or amalgamation, by a pooling agreement, or by the constitution of a holding company to acquire, for a consideration in shares, the whole capital interest in a number of distinct businesses. All these circumstances are dealt with in this book, in which the author first discusses the objects to be gained by amalgamations and then proceeds to deal with the various matters that arise in carrying them through. Valuations of businesses and the assets of which they are constituted may be arrived at by agreement, or, what is more frequently the case, by a separate valuation, and Mr. Cutforth discusses the circumstances to be taken into consideration when making such valuation. The subject of goodwill also receives full treatment, and many useful hints are given in relation to the working out of amalgamation schemes generally.

Law and Accounts of Executors, Administrators and Trustees. By E. Westby-Nunn, B.A., LL.B., and B. G. Vickery, F.C.A. London: The Donnington Press, 40-42, St. Peter's Street, St. Albans, and Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2. (296 pp. Price 12s. 6d. net.)

This is a useful little book dealing both with law and accounts, and comparing the new law as constituted by the legislation of 1925 with the law as it previously existed and as it still applies, to a certain extent at least, to many estates in course of administration. The differences between the old and the new law are clearly set out in tables as regards (1) the rules of intestacy; (2) the marshalling of assets; and (3) the order of priority in which the assets are to be applied. A number of exercises in the form of questions are provided, and examples of estate accounts are given in some detail.

Annual Summary of Tax Cases. By Raymond Needham, Barrister-at-Law. London: Gee & Co. (Publishers) Limited, 6, Kirby Street, E.C.2. (142 pp. Price 10s. 6d. net.)

This book constitutes a short summary of the leading tax cases of the year 1925 with notes by the author on the judgments. These notes are useful in bringing out the salient points. As no less than 78 cases are included it will be understood that the substance of the judgments is highly condensed, but the information given is sufficient to indicate the scope of the decision in each case, and the extent, if any, to which it confirms or supersedes previous decisions.

The Secretary and his Directors. Seventh Edition. By Herbert W. Jordan and Stanley Borrie, Solicitor. London: Jordan & Sons, Limited, 116/118, Chancery Lane, W.C.2. (130 pp. Price 2s. 6d. net.)

The Secretary will find here in brief form much useful information regarding his duties generally and especially his responsibility to the Directors, including information as to Minutes, Extraordinary and Special Resolutions, the status of the Directors and the scope of their duties, Meetings of Shareholders, &c.

How to Form a Company. Seventeenth Edition. By Herbert W. Jordan. London: Jordan & Sons, Limited. (106 pp. Price 1s. 6d. net.)

This book having already gone through sixteen editions is well-known to the public, and the new edition does not appear to embody any very material alterations other than those necessary to bring the matter up to date. The book contains information with regard to the formation of a company, the contents and issue of the prospectus, the commencement of business and the statutory requirements regarding allotments, certificates, registered office, &c. In short, it is a useful guide giving general rather than detailed information.

Changes and Removals.

Mr. Walter B. Baker, Incorporated Accountant, has commenced public practice at Sally Port and Quayside Corner, Berwick-on-Tweed.

Mr. D. P. C. Blair, Incorporated Accountant, has removed to 23, Aegis Buildings, Johannesburg, South Africa.

Mr. J. V. Couzens, Incorporated Accountant, has commenced public practice at 88, Fratton Road, Southsea, Portsmouth.

Mr. A. Fillingham, Incorporated Accountant, has removed his offices to 6, Park Square, Leeds.

Mr. G. G. Jackson, Incorporated Accountant, has commenced public practice at Cromwell Buildings, Blackfriars Street, Manchester.

Mr. Gerard J. O'Callaghan, Incorporated Accountant, has removed to 13, Suffolk Street, Dublin.

Mr. W. M. Paul, Incorporated Accountant, has admitted into partnership Mr. Alfred Green, and will carry on practice in future under the style of W. M. Paul, Green & Co., 43, Castle Street, Liverpool.

Messrs. Arthur Young & Co. have removed their Dallas (U.S.A.) office to 1112-13, Magnolia Building.

ACCOUNTANT-LECTURERS' ASSOCIATION.

The annual general meeting of this Association was held last month at Lincoln House, High Holborn, London, W.C., under the chairmanship of Professor Lawrence R. Dicksee, M.Com., F.C.A.

The committee's report stated that whilst the membership remained satisfactory the committee felt that they had not yet secured the adherence of all qualified accountants who were lecturers, and that it should be the object of every member of the Association to induce as many fellow lecturers as possible to apply for membership.

The report was unanimously adopted, and the following officers were appointed:—President: Professor Lawrence R. Dicksee (London University). Vice-Presidents: Mr. R. N. Carter, M.Com., F.C.A. (late Manchester University); Colonel J. W. Crawford, D.S.O., A.C.A. (Corps of Military Accountants); Mr. T. P. Laird, M.A., C.A. (Edinburgh University); Mr. H. S. Ferguson, F.C.A. (Manchester University); Professor F. B. M. de Paula, F.C.A. (London University). Committee: Mr. H. J. Eldridge, F.S.A.A.; Mr. H. A. Wesson, F.S.A.A.; Mr. M. Moustardier, A.S.A.A.; Mr. A. W. Bain, A.C.A.; Mr. C. J. G. Hughes, A.C.A. Hon. Secretary and Treasurer: Mr. M. Moustardier, 69, Downs Road, London, E.5.

Practical Accountancy and Finance.

A LECTURE delivered at Sydney (N.S.W.) by

MR. HERBERT PRIESTLEY, F.S.A.A. (ENG.),
F.C.P.A. (SYDNEY).

MR. PRIESTLEY said: During a recent tour through America I noticed numerous tradesmen's signs bearing the word "practical," such for instance as "practical bootmaker," "practical plumber" and so on, and the thought occurred to me "What good would any of these men be if they were not practical?" This led me to consider the subject I have chosen for this evening's lecture, viz: "Practical Accountancy and Finance," with which I hope to incorporate a few helpful suggestions on personal efficiency and indicate the path leading to a successful career.

You are all doubtless familiar with the basic principles of accountancy and finance as laid down in the numerous text books and magazines published and as taught in our business colleges and commercial schools. I understand that you are well versed in the theoretical and academical side of these subjects, and that many of you are entitled to add those mystic letters after your name which indicate your qualifications to the world at large. Accept my congratulations on the progress you have thus made. Most heartily and sincerely do I wish for each one of you every success that it is possible for you to attain, and it will be my privilege this evening to endeavour to show how that success may be readily achieved, and what are the necessary qualifications to ensure such achievement. If I draw largely on my own experience I feel sure you will understand that I shall only do so out of a genuine desire to prove helpful.

QUALIFICATIONS FOR SUCCESS.

How is it that so many of our young men who appear to start off well in their professional career get into a blind alley before they have made much progress? They seem to be up against a stone wall that they are incapable of surmounting or that they have neither the inclination nor the stimulus to attempt.

Some men make a moderately fair advance, but a small percentage only make a conspicuous success. Why is it that so many aim and so few achieve? Is it wholly due to influences or causes over which the individual has no control, or is it due to something that is lacking in the individual? These are pertinent questions which I desire you to consider carefully. I am not referring to men who have no ambition, men who have been drugged in lethargy or think more about sport than they do about business. They may know every move worth knowing in a game of bridge, but they do not understand the game of life or how to bridge over difficulties when they arise. I have no time for them. My remarks have special reference to men such as I see before me, men who appear to be keenly interested in their work and are anxious to attain success in the career they have chosen; but how many men of a similar type do we meet from day to day who never seem to make much headway in their profession after they have obtained their diplomas. They have been able to pass their examinations with credit, and some of them at such examinations have secured high honours, but their examination successes do not appear to have followed them in the everyday examinations they have subsequently been subjected to in real life, and after a time many of such men have

drifted into other channels where their training in accountancy and finance has doubtless proved invaluable, and in a somewhat different environment and more congenial atmosphere some of these men have made their mark as administrators, organisers, managers, or directors. Others there are who after acquiring a mine of intellectual riches seal it down and work on from year to year in a half-hearted manner, apparently contented in the knowledge that they are providing for their present needs. Men such as the latter I would like to inoculate with the virus of discontent with their limited achievements and fire them with a mental alertness and joy in their work, and an ambition to leave the lines of least resistance and energetically step out into the field of larger opportunities. These men have got into dead-end positions in which they continue from year to year. They lack the gift of creating opportunities for advancement or of seizing the opportunities when they arise. I know men of this character who have complacently occupied positions such as I have spoken of for upwards of forty years. They got into a cul-de-sac when they were young and lacked the courage and energy to get out of it, and the stultifying influences engendered during a lengthy period of service—which, on account of endless repetition, has become more or less mechanical—has made them so apathetic that they have long since lost all the aspirations for advancement they ever possessed, and if they ever pause to reflect they must wonder how it is that the achievements of others have been so much better than their own.

It frequently happens that it is not so much a question of what one's services are worth so much as what the position one occupies is worth. A £1,000 per annum man has no right to remain contented in a £500 per annum position. He might not be underpaid for the work he is doing, but he would be wasting his talents.

Your business is so to live that each to-morrow finds you further than to-day, further from the crowd that is content with mediocrity, further from partial success and nearer to that conspicuous success which it should be your ambition to achieve; but too few there are who reach those sublime heights and become real live wires emitting energising ideas, men whose services prove of inestimable value, not only to their principals or clients, but also to the community. We must all realise that the test of every man is the value of his services and we cannot get away from service whether we like it or not. "It is the rent we pay for our place on earth," therefore we should make that service as helpful and profitable as possible.

This leads us to the conclusion that the prospect of a successful career does not depend entirely on how much we know. We may, in fact, be so crammed full of knowledge that our mental digestion becomes impaired and we are unable to assimilate anything properly; or, to change the simile, it is possible for us to be overburdened with a lot of cultural lumber which, instead of being of real value to us, may only serve to impede our progress. No! It cannot be too strongly emphasised that it is not "how much we know" so much as the quality of that knowledge and the right use we make of it at the proper time and place that will prove to be of paramount importance in our upward and onward march. We each resemble a library, inasmuch as it is not the number or variety of books it contains that makes it valuable so much as the quality of the contents of those books and the use that is made of them; and although knowledge is usually referred to as power, it is only latent power that requires stimulating into potential activity. Like an electric current generated by a dynamo, there must be the right environment and conditions to produce power and light.

Proper connections have to be made and the current has to be switched on before it can be of any use to the community.

Someone has divided mankind into two classes, the "leaners" and the "lifters." The former are devoid of ambition, have no personal initiative or enterprise, and will accept no responsibility. Your presence here this evening is an indication that you do not belong to that class. You are amongst the lifters—but how much do you lift? What is the limit of your ambition? Are you going to be content with a partial success, or are you desirous of scaling the heights?

The line of demarcation between commonplace ability and distinction is often much narrower than many persons imagine, yet how many fail to cross that line and thus fail to achieve more than ordinary success, not through want of book knowledge so much as through lack of diligence, patience and assiduity to apply to the full extent the knowledge they have acquired, together with an absence of that pleasing personality that radiates efficiency and inspires confidence; and they attribute the success of their more fortunate brethren mainly to luck or influence. The trouble with many men is that they have more book knowledge than wisdom, courage, foresight and astuteness. They do not properly assimilate and make the best use of what they have learned or procure the most favourable environment for the utilisation of that knowledge, and whenever they attempt to express an opinion on any problem that is submitted to them it is more often than not a negative one. They are positive about nothing that has not been provided for in one of their favorite text books. They remind one of a student whose answers to a series of questions in accountancy once came under my notice as examiner. He was asked what advice he would give under circumstances which were clearly set out in one of the questions. His answer was "I am not prepared at the present moment to state what advice I would give under the circumstances named, but before giving any advice I would look up the recognised text books and the statutes bearing on the subject." He was advised to look them up before the next examination.

If one could only teach such men as these what to remember at the right moment and how to apply that knowledge to the best advantage, as well as how to discard everything that is unprofitable or likely to prove a hindrance; and if one could at the same time enlarge their vision and enable them to think more clearly and intensely for themselves instead of relying so much on text books and precedents, rules and regulations, their ultimate success would be more assured.

In routine work two men may be equally reliable and satisfactory, but whereas one is bounded by narrow limitations the other is intensely practical and self-reliant. He tinctures everything he does and says with his own efficient and tactful personality; he applies himself assiduously to everything he takes in hand, is receptive to new ideas and does not fear innovations; though self-confident he is not too opinionated, but is bold enough to make precedents when his judgment assures him that he is right, and strong enough to counteract opposition with a good grace. He it is who has learned when to say the right word in the right manner and place, and at the right time, and, what is of equal importance, when to keep silent. He is an acute, penetrating observer, and has learned not only to see things that the routine man would pass unnoticed but also to foresee things of which the routine man would never dream. He is keenly alert, discerns that which is important, picks out the essential points—the things that really matter—and relegates all others to their proper sphere. He possesses an unflinching determination to succeed, and his genius for overcoming difficulties enables him cheerfully to

surmount every obstacle. He marches with the progress of events, cultivates a creative spirit, and is at all times thorough, conscientious, consistent and accurate, and can thus be depended upon. His cool, calm, common-sense method enables him to look upon everything impartially and dispassionately, and his pleasing personality inspires confidence. His clients soon learn to regard him as a guide, counsellor and friend, but withal he has the courage to demand what his services are worth—and get it.

This may appear to you to be the standard of a superman, but it is the one you should attempt to reach if you desire to win more than ordinary success in your professional career. Don't look on in timid complacency or dumb indifference, but make every post a winner. There must be no spasmodic interest or apathy. Regard everything from an intensely practical standpoint, and, whilst avoiding a vain conception of your own accomplishments, never mark yourself down, but see that your fees are commensurate with the importance of the work you undertake and the services you render. In this connection it will be to your advantage to grasp this simple proposition: the point where brain work of a superior type predominates over routine work is the point where the big pay begins.

Should you ever fail to keep an appointment, or inadvertently omit to carry out any instructions, never offer as an apology the feeble pretext that you forgot. You are not paid for forgetting. Unless you acquire the art of never forgetting appointments and instructions you will be rightly accused of indifference or lack of interest, and your business will suffer accordingly. Your powers of concentrated attention must be developed. When discussing any proposition with a client concentrate wholly on his affairs to the immediate exclusion of everything else. Show your interest by a few leading questions after he has stated his business, but be a tactful, patient listener. Just draw out the main facts you require, but let him do most of the talking and send him away happy in the thought that he has secured the services of the most patient and practical accountant in Australia, and having once gained his confidence and respect, never disappoint him by any forgetfulness, lack of attention, diminution of effort, discourtesy or neglect.

When you are subpoenaed to give evidence in a Court of Law or Equity, as some of you doubtless will be in due course, remember that you are there as a witness and not as an advocate. This simple and self evident proposition appears to be lost sight of by some professional men immediately they step into the witness box, where they endeavour to air their opinions, often to the disadvantage of their clients. It will be soon enough to express an opinion when you are asked to do so; in the meantime confine yourself strictly to the questions that are asked.

PREPARATION OF REPORTS.

I am of the opinion that one of the severest tests of an accountant's ability is the manner in which he presents his facts. He may be able to conduct an audit or make an investigation on the most approved principles, but unless he has acquired the art of marshalling his facts in an explicit, unequivocal and logical manner, he will soon learn that his efforts will not arrest attention and secure that full measure of success that he may desire to win.

In the education of an accountant the art of presentation of facts does not appear to me to receive the serious attention that it deserves, with the result that many otherwise capable members of the profession do not attain to that high standard of proficiency which is not only desirable but absolutely necessary in order to ensure marked success.

To be able to marshal one's facts in proper logical sequence when preparing a set of accounts is an achievement that is not difficult to accomplish, and should be the ambition of every young accountant who desires his work to be appreciated; but he must not stop there. That is only the technical—though very important—part of his work, and after a time it may become purely mechanical. From the numerous text books that are procurable he can learn how to discharge this portion of his duties in a satisfactory manner, but he must aim much higher and learn the art of presenting essential facts in a report bearing on the accounts, and on the result of his investigations, in such a lucid manner as to enable his principals and any other persons to whom his report may be submitted—to clearly grasp the situation without being perplexed or mystified. This report should be so arranged as to accentuate and illuminate any special features presented in the accounts and not serve to obscure same with a superabundance of words. It must deal with bedrock facts and not with abstractions, and be free from all ambiguity, hot air and padding. These elementary principles are of much greater importance than a meticulous nicety of phrasing or a super-richness of diction.

Some reports are as uninteresting to read as a table of logarithms; they consist of a mass of percentages worked out to minute details. Others simply repeat in a varied form that which is obvious on the face of the accounts; they are stale, flat and unprofitable, being devoid of a single illuminative sentence. Others provide a beautiful "necklace of negatives" without any accompanying constructive links, whilst others are so voluminous and full of irrelevant padding, generalisations and loose, ambiguous verbiage that they are of no earthly use whatever. A well known and highly respected Sydney merchant on one occasion showed me one of the latter type which he denounced in vigorous language, stating that after he had expended a lot of valuable time in wading through it he was led to ask "What on earth is it all about?"

Do not cloud matters in verbal smoke screens by a farrago of meaningless phrases, but strive for clarity of expression and endeavour to prepare your reports in such a manner that they will not only be free from redundancy and tautology but that they will be lucid, interesting, irrefutable, unbiassed and of practical utility. There must, however, be no mental reservations. You must be candid and honest and avoid the suppression of any consequential facts. Elucidate any points that may appear to require explanation and bring out in strong relief any features to which you may deem it advisable to focus special attention, but refrain from making any statement that you cannot fully substantiate or support, or you may inadvertently do far more harm than good, in addition to which you would place yourself in a false and untenable position, jeopardise your good name, and lay yourself open to severe and well deserved criticism. Your ability and work would thus be discounted. In this connection it is wise for one to avoid all impetuous judgments and keep a vigilant eye on one's own efforts.

It may occasionally be necessary for you to re-state that which is obvious—as I am doing this evening—but the obvious needs re-stating once in a while. This, however, should not lead to diffuseness, but where there is accuracy of comprehension, combined with the power of compression and a determination to prove helpful and illuminative, it is unlikely that there will be much diffuseness.

The art of presenting facts in the manner suggested by me is not acquired without much labour and effort. It embraces distinguishing qualities which indicate efficiency of a high order, combined with a certain amount of natural aptitude,

discretion and experience and a command of words equal to the flow of thought, but if you resolutely follow the general principles that I have laid down and avoid the erroneous methods to which I have directed attention you will eventually be able to view everything in its proper perspective and learn how to present your facts accordingly.

Whilst some men have more literary ability and are more talented than others in the art of presenting facts and making consequential deductions, there are others who would make much better use of the ability they possess were they more fully seized with the importance of this class of work.

You may ask: "Is it worth while going to all that trouble?" So far as you are personally concerned, provided that you are satisfied with a partial success, and are thus willing to allow each day's petty dust to so obscure your vision that you are unable to look beyond the immediate present, it may not be worth while. But what about your principals or clients? Are they not entitled to the best that you can give?

It is well to remember that every man has a circle of friends, and if you give satisfaction in the manner indicated the person to whom your report is addressed is much more likely to recommend you to his friends, when the opportunity presents itself, than he would be if your report did not prove of any material benefit to himself.

One of the motor companies trading in Sydney has adopted a slogan which reads: "Consider what you get for the price you pay." Would it not be advisable for us all to occasionally stop to consider what we give for the salaries or fees we receive, seeing that the persons who employ us are also likely to consider from time to time what services and benefit they receive for the price they pay?

A few months ago in a log cabin in Canada I saw on a wall the following sentence, which is pregnant with meaning: "Do what you are paid to do and then some. It's the 'then some' that gets your salary raised." Whether we regard the question from a monetary standpoint or otherwise, it is invariably the "then some"—when wisely directed—that counts.

Apart from the question that an honest, straightforward report free from ambiguity must prove helpful to your principal—and incidentally to yourself—more especially if it embodies practical suggestions which your experience and training may lead you to offer, you should also take into account the fact that when a report leaves your hands you do not know into whose hands it may eventually fall beyond those of the one to whom it has been addressed. Accountants' reports are frequently submitted to bankers, merchants, directors, investors, brokers, managers, and others whose assistance or influence may be desired—men who are able to appraise your services at their true value—and if they find your reports are of outstanding merit such reports will engender confidence in you and in your work, and a favourable impression thus created may prove useful to you in many ways. In this manner, to my own personal knowledge, some of our most successful accountants have largely increased their connection.

All this may appear to be excessively utilitarian, but it is nevertheless exceedingly practical and may help to solve one of the problems of the young accountant who is desirous of increasing his connection in a legitimate manner, without violating any of the ethical standards of the profession.

One thing further remains to be emphasised relative to reports. To be wholly effective they must be submitted promptly. Belated reports, however well drawn, lose much in effectiveness and value. Fraud or leakage of any kind

should be reported immediately it is discovered, without waiting for a final report to be prepared, and in all other cases your report should be presented with the least possible delay after you have completed the audit or investigation on which you have been engaged. The reason is so obvious that there is no necessity for me to occupy your time in further emphasising same, though I am of the opinion that occasionally a certain lack of celerity in the completion of reports is apparent when it might advantageously have been avoided.

Should circumstances ever render a delay in submitting a report unavoidable, never make the excuse that you have been too busy to complete it earlier. Your clients do not care one iota how busy you may have been attending to other people's business—they pay you to attend to theirs, and if you foolishly give them the idea that you cannot spare the time to give prompt and undivided attention to their affairs on account of other pressing engagements, you need not be surprised if they take their business elsewhere. It is much wiser to leave the impression with every individual client that his affairs are of paramount importance and are receiving the best possible attention.

I do not wish you to infer from anything that I have stated that a report should accompany every balance-sheet you examine or prepare. In a large number of cases it will be found that a certificate at the foot of the balance-sheet will provide all that is requisite. When you have not received instructions to furnish an additional report your own judgment must be your guide as to whether or not a report is necessary or desirable. You must, however, never fail to recognise the fact that you are not a director or manager of the business whose books you have been commissioned to examine. If you should be unwise enough to appear to dictate as to the manner in which a business ought—in your opinion—to be conducted, or the profits distributed, your action in so doing will furnish a cause for resentment, though any concrete proposals for the improvement of the finances are usually welcomed, if submitted in a tactful manner, more especially if you are able to suggest how savings can be affected or profits increased.

I remember a case, some years ago, in which an accountant—in a fit of excessive zeal—after certifying to the correctness of a company's balance-sheet which disclosed a handsome profit in addition to large unappropriated reserves, reported strongly against the recommendation of the directors that the usual rate of dividend be increased, his contention being that—irrespective of the large undivided profits and reserves disclosed—the state of the company's finances, as revealed by its bank account, did not justify the payment of a larger dividend. At the annual meeting of the company at which the accounts were submitted the dividend as recommended by the directors was declared, and another accountant with more wisdom and discretion was appointed auditor, leaving the former auditor to pose as a martyr to duty, which was the mistaken attitude he adopted.

CERTIFYING FOR A PROSPECTUS.

We will now consider the question of prospectuses of public companies in which the names of accountants usually appear in one capacity or another—such, for instance, as auditors, secretaries, financial advisors, or legal managers, and occasionally as directors.

Before consenting to your name appearing on the prospectus of any company, ascertain:—

1. Who are the vendors, and why are they disposing of their interest to a public company?

2. What sum are they to receive in cash and/or in shares for such interest?

3. Does such sum appear to be a fair and reasonable amount for the net assets to be acquired by the proposed company?

4. Do fictitious or wasting assets, such as goodwill, leases, patent rights, trade marks, &c., constitute a large portion of the assets to be acquired by the company, and if so, how has the value of such assets been arrived at?

5. Have any service agreements been entered into or arranged with the vendors or others, and if so, do they contain any onerous covenants?

6. Are the provisional directors men of experience, good character and sound judgment, and has provision been made for prospective shareholders—other than the vendors and their nominees—having representation on the board?

7. Are any of the directors appointed—under the company's Articles of Association—for life, or for a lengthy term, or as long as they hold a stated number of shares in the company?

8. Is the amount of capital on which the company is authorised to proceed to allotment set out in the prospectus, and does such sum appear to be adequate for the company's requirements after payment of the cash (if any) due to the vendors?

9. Does the prospectus, in your opinion, convey in an honest manner all such information as potential subscribers should have placed before them?

10. If reports are included in—or annexed to—the prospectus, have such reports been made by trustworthy independent persons, or by persons who are financially interested in the flotation of the company?

11. Can you honestly recommend the proposition to your friends?

12. Is it a company in which you would risk any of your own capital were you looking for a safe and profitable investment?

If the answers to the above questions are satisfactory you may proceed "full steam ahead" with every confidence; otherwise be on your guard.

"To thine own self be true,

Thou canst not then be false to any man."

If some of the ancient mariners of the profession—including myself—had early in their career been furnished with a series of questions such as I have submitted for your consideration, and if throughout the intervening years they had acted on advice similar to that which I am now giving to you, much trouble might have been averted. But it is experience that makes us wise, and if we do not learn the lessons of experience too late in life to be of any use to us they will be invaluable.

At the risk of being dubbed "a purveyor of wisdom" I am passing on to you the concentrated essence of half a century's observations hoping that you will thus be able to benefit by another's experience, which is a happy way of gaining wisdom. But this is a digression.

If you desire to retain a good name do not allow it to appear on any prospectus that is likely to prove a pitfall for the unwary. Some companies are doomed to failure from their inception, but with your knowledge of practical accountancy and finance, combined with the ability you have doubtless acquired of making sound deductions, you should be able to

form a fairly reliable opinion as to whether or not the prospect of success of any venture appears to be sufficient to allow your name to be connected with it in such a manner as to lead your friends to believe that you are favourably impressed with the enterprise.

You may accept my assurance that it will be far more to your advantage to be associated with one or two successful companies than with any number of those of the opposite type. Companies that find it necessary to resort to unsound financial expedients labour under great disadvantages that often prove to be embarrassing and perplexing, and do not enhance one's reputation for sound judgment if one is unfortunate enough to be connected with them in any way other than that of receiver or liquidator. With companies such as these, abstract considerations of ethics invariably yield to expediency. None of us may be very brilliant, but if we are thoroughly honest, straightforward and incorruptible, we shall earn and retain the respect of all right thinking persons, without which there can be no permanent success worthy of the name.

On several occasions, for reasons which I need not particularise, I have declined to allow my name to appear on prospectuses, and I have never had any cause to regret having done so, whatever the inducements may have been at the time; but occasionally one's name appears without consent having been obtained. A case of this kind was reported in the daily Press a few weeks ago, when a well known Sydney accountant wrote in connection with a prospectus of a company in which his firm were stated to be the auditors:—

"In the public interest I hope you will make an intimation to the effect that our names were used entirely without our knowledge or approval, and that we have absolutely no connection with the proposed company or the formation thereof."

I know nothing whatever about the merits or demerits of this particular case, but I admire the spirit in which the unauthorised use of an accountant's name was challenged.

When you are the auditor for an established business that is about to be converted into a public company, your assistance may be required in the compilation of the prospectus, and it is not unlikely that you will be asked to furnish a certificate of profits to be embodied in such prospectus. This is where your conscientiousness may be put to a severe test, more especially if the business has been a very profitable one up to a certain period, with an upward tendency during recent years in the percentage of expenses to sales, a smaller gross profit on the turnover, and a consequent reduction in the net profit.

As a suppositious case we will presume that the net profit earned in such a business during the past five years has been £90,000, £80,000, £70,000, £50,000 and £30,000 respectively, or an average of £64,000 per annum. If you were to disclose each year's profit separately it would be apparent to the casual observer that the business is on the down grade, and the prospect of a successful flotation would be remote. You are therefore requested to furnish a certificate of the average profit earned during the five years in question. An average net profit of £64,000 per annum may look alluring and may show a satisfactory return on the proposed capital of the prospective company, but a certificate prepared in the manner indicated, although perfectly true *per se*, would, in the absence of fuller information, inferentially convey a wrong impression and would thus mislead the public, and if you desire to build

up an unsullied reputation you will never be dragooned into giving such a certificate.

Another example I will ask you to consider is that of a business the annual net profit of which has not varied very materially during the past few years, although the turnover has increased considerably, the percentage of gross profit having suffered a reduction and the additional sum earned having been absorbed in working expenses. In this case it is presumed that there has been an accretion to capital from year to year on account of the major portion of the net profit having been retained in the business. You are requested to give a certificate of the percentage of net profit on the average capital employed during the past five years. As each year would show a reduction in the percentage rate on account of the annual addition of undistributed profit to capital, it follows that an average certificate under this method—unaccompanied by a disclosure of relative facts—would also prove misleading, and if you fully realise your consequential responsibility to potential investors you will refuse to sign such an unqualified certificate.

Another typical case is where the business has been a progressive one for a number of years, and additional capital is required to provide for further expansion. You are requested to embody in your certificate a forecast of the net profit the proposed company is estimated to earn during the next few years, based largely on the past achievements of the business. A superficial deduction may lead to the conclusion that the company, with its additional capital, will earn relatively larger profits, but the percentage of net profit in an expanding business is seldom as high on the additional capital employed as it was on the original capital—frequently it is much lower—and you will be wise if you leave all forecasts out of your calculations.

Certify to facts within your own knowledge, and be sure that your certificate is expressed in terms that are conclusive, irrefutable, and unlikely to convey a wrong impression. Avoid all unsupported averages, which, though perfectly true in themselves, may mislead an unsuspecting public. Also avoid all forecasts, which, though given in good faith, may never be realised. Leave potential shareholders to form their own opinions and make their own deductions relative to the prospects of the business and its future net profits, but be certain, if you furnish the data on which such deductions may be drawn, that no material facts are suppressed. A servile acquiescence in any such omission would be perfidious and dishonourable. In this as in all other matters nothing short of the most rigorous accuracy should satisfy your conscientious regard for truth, which consists in conveying a right impression and will not tolerate the intrusion of factors of expediency.

Unfortunately, prospectuses are issued from time to time in such a specious manner as to make it very difficult even for a trained investigator to form a reliable estimate of the soundness or otherwise of the proposed venture. They may refrain from giving truth a holiday, but not infrequently they omit much that should be included, and include much that might with advantage be omitted. Assets, the value of which should be separately disclosed, are frequently stated in *globo* under one main heading, such, for instance, as "Land, buildings, leasehold, improvements, investments, goodwill, patent rights, trade marks, formula, &c." Optimistic forecasts are made relative to future business; estimated gross profits are never by any chance under-stated, nor are the expenses ever over-stated—though errors in the opposite direction are not unknown—the result being that the prospective net profits are made to appear insidiously attractive as a bait for human cupidity.

An unbiased and dispassionate judgment on prospectuses of this character might easily lead one to pause and wonder why the vendors are such philanthropists as to endeavour to dispose of their businesses on terms which are made to appear so very advantageous to the investing public.

A safe axiom is to regard the increase in the net rate of profit a company is estimated to earn on its subscribed capital—over and above a fair rate of interest on such capital—as an added risk, and as a general rule the higher the rate of the estimated profit the greater will be the risk.

EXAMPLES OF APPLIED ACCOUNTANCY.

I shall now endeavour to furnish you with a few concrete examples of applied accountancy that will serve to illustrate the manner in which a knowledge of practical accountancy and finance—when properly applied—must prove of material benefit to your principals, and at the same time be a contributing factor to your own success.

My remarks are not intended solely for those whose ambition it is to enter the ranks of the professional accountant. There are many men in Australia to-day holding high positions in public companies, where they are receiving handsome salaries—men for whom I entertain great respect and admiration—who could not possibly have worked their way into those positions without having acquired a knowledge of practical accountancy and finance. Some of these men are university graduates in economics, others have received their training in a public accountant's office, whilst others have passed through one of our business colleges, but they all acquired not only a theoretical but also a practical knowledge of accountancy, which, added to other good qualifications they possessed, enabled them to work their way into their present positions, where that knowledge is daily proving of inestimable value.

My remarks are intended for all who desire to emulate their example and follow in their footsteps, as well as for those whose objective is that of a professional accountant. For many men there is a greater fascination in commercial life than there is in a professional career, and the prospects are more alluring. Whatever your objective may be, I hope that my observations—culled from a crowded storehouse of collected impressions—will prove helpful.

I am aware that there are some persons to whom facts are abhorrent and figures distracting. Should there be any such present this evening I fear that what I am about to say will not prove of much interest to them, but I will ask those of you who are sufficiently interested—as I believe the majority of you are—to accompany me on a tour of inspection.

We shall first visit a department store which has recently changed hands, the former proprietor having regarded the office work as an incubus, and if any attempt had been made to inaugurate a proper system of accounting during his regime it would have proved futile, as his limited vision would have caused him to view such a project with suspicion—he would have considered it an unnecessary expense—with the usual result: He had to make way for a more practical man who very wisely recognises that the accountancy and statistical departments when properly organised, supervised and controlled, are indispensable to any progressive business.

I am not going to weary you with a synopsis of the numerous operations necessary to give effect to the new proprietor's views. This is a typical case in which your knowledge of practical accountancy and finance will be put to the test whenever you try to inaugurate a comprehensive

system that is likely to prove satisfactory under circumstances such as I have outlined.

When attempting to produce order out of chaos, never overload the work with an elaborate system that may prove to be too cumbrous or burdensome for the staff employed. Make everything so plain and simple that your efforts will be easily understood and thoroughly appreciated, otherwise you will find, later on, that many of your instructions will have been ignored or treated with a passive resistance, with the result that your efforts will be discounted, as it will be made to appear that the system you inaugurated is either unworkable or too difficult to be carried out without additional expert assistance.

If the former book-keeper has been retained he will doubtless receive a shock that will provoke in him a mental disturbance when you make radical alterations in his pet system—or want of system—and he will probably tell you, as I have been told on numerous occasions, that "that is not the way we used to do." He must be informed firmly but tactfully that if he is desirous of retaining his position he must forget the way he used to do and carry out your instructions to the letter, for unless that is done the system you have inaugurated may be so emasculated that it will assuredly fail to produce the desired results and your prestige will suffer accordingly.

You will, of course, institute an efficient check on all goods received and despatched and see that proper provision is made for the recording of all receipts and payments; also that all matters leading up to the final accounts are placed on a satisfactory and scientific basis. All this is simple routine work, but you must not stop there. If your services are going to be of real value you must institute a system of departmental accounts from which your client can readily ascertain, not only the amount of purchases and sales in each and every department, but also the gross profit, working expenses, overhead charges and net profit; also the number of times each year the stock is being turned over in each department, with comparative statements showing at a glance the progress made from time to time.

Your value as a supervising accountant will be further enhanced if you can demonstrate to your client or principal the reason of any abnormal fluctuations in any department; why some departments only produce a low percentage of net profits; why others are being carried on at a loss; and generally, if you can point out any inherent weakness, trace the cause of same, and suggest an effective remedy.

To simply report, relative to any department, that the sales for the period under review were so much more or less than those of the corresponding period of the previous year, or that the net profit shows a reduction of such and such an amount is neither conclusive nor satisfactory, but if you succeed in tracing the cause and in a tactful manner suggest a remedy, you will thus be able to give a practical demonstration of your ability which will prove far more valuable than a series of elaborate percentages or lists of missing vouchers.

Learn to anticipate and forestall your clients' or principals' requirements by contemplating what information you would be likely to require if your positions were reversed. Don't snow him under with a lot of irrelevant details or with paper schemes to be torn to pieces immediately the test of practice is applied, but give him hard facts in concentrated form, and at the same time always be prepared to furnish any additional information that he may desire in support of your statements.

We shall now leave the department store and continue our tour of inspection. Here is a motor car agency with its

ancillary branches. In view of the well known fact that used cars taken in exchange and as part payment for new cars, after being reconditioned, are usually sold at less than actual cost, we will first ascertain on what basis the unsold cars have been taken into stock; then we will see if every car purchased or re-possessed has been properly accounted for, and inquire how the cars that have been re-possessed on account of the purchasers under hire purchase agreements failing to meet their monthly instalments have been listed; also if the unpaid promissory notes discounted with the motor finance companies relative to such cars have been adjusted and withdrawn, or if any of these re-possessed cars have been re-sold prior to such withdrawal and adjustment, thus making it possible for two or more sets of promissory notes over the same car to be under discount at the same time. Has the contingent liability on all promissory notes discounted been taken into account, and how have the accessories been listed in view of the rapid changes that occur rendering some of the pieces obsolete in a short space of time? These are all pertinent questions and only represent a fraction of those which require our earnest consideration after completing the ordinary routine work. To attempt to shield one's self behind the certificates of the responsible officers of the company, without instituting further inquiries, would, in my opinion, be to neglect one's duty. One must be keenly alert in matters of this kind, and remember that vigilance is the price of safety as well as the price of liberty.

We shall now visit an old established business founded many years ago by the present proprietors, who have had no practical experience in financial methods other than those pertaining to their own business. They are keen, shrewd buyers and expert salesmen, but have much to learn in the art of financing. From the inception of the business the custom has been to sign promissory notes each month for the whole of the previous month's purchases, and to accumulate sufficient cash in the bank during the month to cover the promissory notes maturing on the fourth of the following month. As the business progressed, the accumulations at the bank became larger every month pending the withdrawals on the fourth proximo, when the promissory notes were presented for payment. The firm thus lost a considerable amount of discount by giving promissory notes instead of paying cash, and the money in the bank earned no interest during the time it was accumulating. In a case such as this it is not difficult to see where a large saving can be effected. We can, in most cases, help the firm to make satisfactory arrangements with its bankers—even if we have to go so far as to suggest the conversion of the business into a proprietary company in order to give the bank ample security by way of a debenture over the whole of the assets in consideration of an overdraft being obtained that will provide for prompt cash payment for all future purchases, as the discount thus received would be considerably in excess of the interest debited by the bank on the amount overdrawn, and there would be no loss of interest as at present, as all sums banked during the month would serve to reduce the debit balance on which interest is calculated daily. Practical help of this kind is of immediate value, and is invariably highly appreciated.

We shall now visit a manufacturing business where the books appear to have been kept fairly well, with departmental accounts and a good system of costing. One department, which on account of the large increase in sales was expected to show a satisfactory net profit has resulted in a loss, the cause of which has not been discovered. After satisfying ourselves that the dissections of purchases, sales, wages,

overhead charges and other expenses are all in order, we discover that there has been an abnormal run on one particular line of goods manufactured the selling price of which had been fixed by the management—on the basis of the data furnished to him—at a figure which should have produced a commensurate net profit. We call for the cost sheets and there discover an error in the costing on which the selling price had been based, with the result that this particular line of goods, instead of producing the profit computed, has throughout been sold at a loss.

In another case, after a lot of trouble and research, we discover that at a certain stage a change of policy was the primary cause of a reduction of the profits.

These comprise a few typical instances where a knowledge of practical accountancy and finance will prove of infinitely more value than any amount of academical talk, and these cases—which are not hypothetical ones—could be multiplied by the hundred if time and your patience would permit.

In addition to the class of cases mentioned, you will find many excellent opportunities of applying your knowledge of practical accountancy and finance in relation to taxation matters, stamp duties, trustee and executorship affairs, liquidations, receiverships, assignments, company management, adjustment of losses under fire and loss of profits policies, and in other directions far too numerous to mention.

Whatever the problem may be, attack it with equanimity, and whatever you do do well, without a thought of fame. As Longfellow says: "If it comes at all it will come because it is deserved and not because it is sought after." May you all deserve it. Adopt the Rotary Club's motto and "Put service before self." Have high ideals as well as high aspirations and don't become materialistic.

A few months ago I visited Ford's Motor Factory in Detroit, where I was struck with the amazing difference between the handful of men who used their brains to build up and manage such a wonderful organisation and the large number who were directly engaged in the soul-killing routine work of mass production and assembling of cars, with no aspirations for anything higher or better.

GENERAL OBSERVATIONS.

There is a surplus of labour available for routine work in accountancy, as in other occupations, and some there are who never appear to get very far beyond a mechanical adding and ticking machine stage. As far as practicable relegate all routine work to your juniors and make full use of whatever mechanical office appliances are available either for writing, adding, calculating, telephoning or other work, thus leaving yourself more time for work of a higher grade. Whenever you find any trouble in connection with your work, delve deeply and get down to bed-rock in order to find the cause. Study the productive, distributive and commercial sides of industry and make yourself acquainted with to-day's business principles, problems and difficulties. Knowledge of this kind will provide an added interest in your work and will enable you to discuss matters more intelligently with your principals or clients. Study the intricacies of foreign exchanges and the business columns of the daily newspapers, and don't be satisfied until you can define the meaning of the numerous financial, and commercial terms employed and clearly understand what they imply. When uncertain about your knowledge of any subject in which you are interested, it is a good plan to write all you know about it—without reference to any text book or other source of information. You will be astonished at times how little of any value you really do

know on some subjects when you test yourself in this manner. When this happens read up all you possibly can on the subject and after completing your researches, write another paper covering the whole ground. I am free to confess that many of my best efforts have had their origin in this manner.

Doubtless you all think you know, and can clearly define, the numerous commercial abbreviations that are in daily use; but are you certain that you can? Or are you like the man who, when asked "What is a vacuum?" replied, "Oh! I have it in my head, but I can't explain it now." If you have any misgivings on this point it will be an interesting and profitable exercise for you to attempt to define these abbreviations in writing, for definition is the remedy for ambiguity.

When business is not proving satisfactory there is a tendency in some quarters, by a kind of thimble-rigging finance, to make the profits appear much larger than they really are, and in cases where the financial books have not been properly kept and a balance-sheet has been prepared without the usual supplementary accounts, the opportunity of juggling with the figures is occasionally availed of, especially when financial assistance is required, or it is considered diplomatic to hoodwink someone by disguising the true position, as the balance of assets over liabilities plus the capital at the commencement of the financial period, after adjusting any additions to or withdrawals from capital, is supposed to represent the profit earned. Hence the necessity of insisting upon accounts being kept on the double entry system; but when you are instructed to report on a business whose accounts you have not supervised, and such accounts have been kept in the unsatisfactory manner indicated, you need not be surprised if you discover many glaring errors. In fact, it will be more of a surprise if you do not discover any.

From an accountant's store of experience I have endeavoured to bring under your notice a few fundamental principles which should prove helpful and inspiring. You may not all be able to scale the heights—the road is not an easy one—it is beset with difficulties and disappointments, but a determined effort to overcome same in the manner I have indicated will carry you much further than those who are so deeply engrossed with routine work, or pleasure, that they have neither the time nor the inclination to rise beyond their present level.

The path of success is invariably the path of common sense, but hard work, grit and determination are also essential qualities. Knowledge alone will not suffice. You must possess application, industry, infinite patience, superb courage and an indomitable will, combined with that indefinable quality which, for want of a better name, we call "an ingratiating personality." If you possess these attributes you cannot fail, provided that you are prepared to pay the cost.

Don't worry about the future, but go forward manfully, remembering Carlyle's words: "Our main business is not to see what lies dimly in the distance, but to do what lies clearly at hand."

Sir A. Copson Peake, LL.D., J.P., of Messrs. Barwick, Peake & Milling, Leeds, who has been associated for many years with the British Law Assurance Company, Limited, as chairman of its Yorkshire board, has been elected a director of the head office board of the company in London. Sir Bernard E. H. Bircham, K.C.V.O., of Messrs. Bircham and Co., has also been elected a director of the company.

Society of Incorporated Accountants and Auditors.

RECEPTION AND DANCE.

Arrangements are being made for a reception and dance to be given at the Carpenters Hall, London Wall, London, E.C., on Wednesday, November 3rd.

The President and Mrs. Keens will receive the guests on behalf of the London members, but it is hoped the function will be supported by members from other parts of the country and by members of the Incorporated Accountants' Students' Society of London.

The price of tickets will be 12s. 6d., and applications should be sent to the Secretary, 50, Gresham Street, London, E.C., not later than Tuesday, October 26th.

Finance of Electricity Supply Undertakings in Great Britain.

A PAPER read at the annual meeting of the Institute of Municipal Treasurers and Accountants by

SIR HARRY HAWARD,
Electricity Commissioner.

1.—A large amount of public attention has been directed in recent years to the electricity supply of the country, and the Government scheme for its greater development is now before Parliament. Electricity is playing an increasing part in the industrial and social life of the people, and the number of units of electricity sold per head of population may come to be regarded as one of the tests of a town's importance and industrial welfare.

2.—The financial questions arising in connection with the supply of electricity should be of interest to the financial officers of local authorities carrying on electric supply undertakings.

3.—The subject is a large one, and I cannot hope to cover all the ground. I propose to discuss or touch upon the following matters: the raising of capital, capital expenditure, working capital, the remuneration of capital, unremunerative capital, the repayment of loans, depreciation, obsolescence of plant, reserve funds, option of purchase, sliding scales, allocation of profits, audit and publication of accounts, the finance of joint electricity authorities and of the proposed central electricity board. Some of these matters concern both local authority and company undertakers; others affect one class only. The presentation of the subject must, I fear, be somewhat disjointed.

4.—Having regard to my official position, I do not propose to express any opinion upon matters raising issues of a controversial character. The paper is informative and not critical, that I hope it may not lose interest on that account. My object is to present the facts and figures in such a form that members can form their own judgment upon them.

5.—The figures quoted are taken from the official statistics, the latest volume of which is about to be published, and contains figures up to December 31st, 1924, in the case of companies, March 31st, 1925, in the case of local authorities (England and Wales), and May 15th, 1925, in the case of local authorities (Scotland).

6.—The public supply of electricity in Great Britain is in the hands of 338 local authorities (25 Scottish authorities, 72 county boroughs, 97 borough councils, 16 Metropolitan borough councils, 121 urban district councils, 5 rural district councils and 2 district boards), and 228 companies and persons, operating under Provisional Orders (now Special Orders) made by the Board of Trade (now Electricity Commissioners) and approved by Parliament, or under special Acts. These supply authorities are termed "authorised undertakers," and the number actually giving supplies at the present time is 513. The powers granted by these Orders may be revoked in cases of default, but are otherwise granted in perpetuity, subject, in the case of companies, to an option to the local authority to purchase the undertaking at the end of 42 years and at recurring periods of ten years on the terms laid down in the Electric Lighting Act, 1888, or in certain cases at earlier dates on terms prescribed by the Order. The undertakings of the power companies under their special Acts, are, however, not purchaseable.

7.—Although the principal Act was passed in 1882, the era of electrical development really dates from the year 1889, following the extension of the original term of the concession to companies from 21 to 42 years. This gave a great impetus to electrical development, and in the following seven years (1889 to 1896) no fewer than 250 Provisional Orders were granted. In a number of cases the Orders originally granted to local authorities have been transferred to companies, while in other cases company undertakings have been purchased by agreement with local authorities.

8.—Since those early days the public supply industry has made rapid strides. Thirty years ago the capital invested was about £6,000,000. To-day it is £194,500,000, of which £125,250,000 has been spent by local authorities and £69,250,000 by companies. If the forecast of Lord Weir's Committee is realised, a further £250,000,000 will be required to meet the developments of the next sixteen years. The fact that during the last three years capital expenditure has been proceeding at the rate of £17,000,000 a year indicates that this estimate is a moderate one.

PUBLIC CONTROL.

9.—The public supply of electricity tends to become virtually, although it is not legally, a monopoly, and a certain amount of Government control is exercised in the interests of the public. This is provided for by the General Acts and the Orders under which authorised undertakers operate. The Government control affecting the finances of undertakers relates to such matters as maximum prices, forms of account, sanctions to loans (local authorities only), and special audit (companies only).

10.—The administration of the Electricity Supply Acts devolves upon the Minister of Transport, who is advised by the Electricity Commissioners; the latter body, however, exercise certain functions on their own responsibility. The statutory duty of the Commissioners is to "promote,

regulate and supervise" the supply of electricity. Their expenses, as approved on an annual estimate submitted to the Minister, are levied on all authorised undertakers in proportion to the units sold by them. The net cost of the Commission for 1925-26 was £42,000, equivalent to under 2d. per 1,000 units sold in 1925.

RAISING OF CAPITAL.

11.—Capital is the life-blood of industry, and an adequate flow of capital is essential for the development of the electrical supply industry as for other industries. Local authorities raise the capital required for their electricity undertakings, as for their other municipal purposes, on the security of the local rate, and their credit generally is sound. The revenues of the undertaking constitute the primary source from which the capital charges are met, but the ultimate security is the local rate. The amounts borrowed for electricity purposes are not reckoned as part of the total debt of a local authority for the purpose of any limitation on borrowing powers; in the United States such outlay is not regarded as debt, but as capital. If, owing to excessive borrowings for general municipal purposes, high local rates, or some other cause, the financial credit of a local authority should become impaired, difficulty might arise in raising funds, but no case has come to my knowledge of a local authority having been unable to raise funds for its electricity undertaking; there are, indeed, instances of electricity undertakings successfully carried on by local authorities whose general financial position cannot be regarded as satisfactory.

12.—Whatever may have been the case in the early days of the industry, it cannot be said that to-day electricity supply companies generally find difficulty in raising the capital they require. The facility with which money has been raised for electricity purposes by substantial companies in recent years is noteworthy. The London Power Company was able to make an issue of £3,000,000 5 per cent. debenture stock in February last at a price of £96 per £100 of stock. It is true this issue was of a somewhat exceptional character and was guaranteed by the ten large West End companies, but it shows that securities of this kind are favourably regarded by the investing public.

13.—Certain electric supply companies have, nevertheless, found it necessary or desirable to take advantage of the Government scheme of guaranteed loans under the Trades Facilities Act, 1921. The Electricity Commissioners report on all applications made by companies to the Advisory Committee who administer this Act. Guarantees have been agreed to for schemes to the extent of £4,092,100, and the loans actually issued to date with guarantee amount to £2,792,100. The raising of these large sums at 5 per cent. or less rates of interest represents a considerable advantage to the industry.

14.—The company side of electricity finance presents a certain complication owing to financial or holding companies acquiring a controlling interest in the statutory undertakings and to statutory companies becoming associated by the same method of shareholding.

15.—Under sect. 3 (1) of the Electric Lighting Clauses Act, 1899, undertakers are forbidden to purchase or acquire the undertaking of or associate themselves with any company or person supplying energy under any licence, special order, or special Act, unless authorised by Parliament to do so, but there is nothing to prevent such a company acquiring the majority of the shares in another company and so controlling and working it under one management. Difficulties in connection with the initial or subsequent financing of statutory undertakings have doubtless led to the intervention in certain cases of finance companies.

CAPITAL EXPENDITURE.

16.—The amount of capital expenditure at the end of 1924-25 was as follows:—

Purpose.	Local Authorities.	Companies.	Total.
Generation :	£	£	£
Land	1,538,725	852,585	2,391,310
Buildings	13,490,033	6,584,589	20,074,621
Plant and Machinery ..	43,166,649	21,202,475	64,369,124
Unallocated	210,736	975,311	1,186,047
Total for Generation ..	58,406,143	29,614,959	88,021,102
Main Transmission Lines	3,966,441	4,259,241	8,225,682
Distribution :			
Land	320,505	387,685	708,190
Buildings	1,903,575	1,188,157	3,091,732
Plant and Machinery ..	9,494,140	5,546,830	15,040,970
Mains and Services ..	41,209,491	20,996,426	62,205,917
Meters	3,483,673	2,085,793	5,569,466
Other	1,441,216	1,297,238	2,738,454
Unallocated	145,382	468,848	614,230
Total for Distribution	57,997,982	31,970,977	89,968,959
Motors and other apparatus let on hire ..	686,202	181,081	867,283
Miscellaneous	4,255,759	2,680,873	6,936,632
Grand Totals ..	125,312,527	68,707,131	194,019,658

WORKING CAPITAL.

17.—An electricity undertaking cannot be carried on without working capital; current expenses have to be met several months before revenue comes in. A company's capital provides for this item, but local authority undertakers are not empowered, unless by private Act, to borrow for this purpose. The suggestion has been made that a general power to borrow for working capital should be obtained, but this does not appear necessary in view of the provisions of sect. 3 of the Local Authorities (Financial Provisions) Act, 1921, which allows a local authority to borrow, with the consent of the Minister of Health, for the purpose of providing temporarily for any current expenses on the condition that the amount borrowed, together with the interest thereon, shall be repaid out of the revenue received in respect of the financial year in which the expenses were incurred.

18.—In the case of well established undertakings, where it is possible to carry forward an adequate balance on revenue account no difficulty arises, as this balance is available for the purpose. In this connection some misapprehension appears to exist as to the requirements of sect. 7 of the Electric Lighting Clauses Act, 1899, which deals with the application of the "net surplus," but is silent as to any carry forward. This section relates in terms to the application of moneys received (cash), and no auditor would require a local authority to apply the "net surplus" in the manner therein specified unless there were cash available for the purpose; otherwise the result would be an overdraft, on which there is no power to pay interest.

19.—Some method is generally found for overcoming the difficulty arising from the absence of any specific power to provide working capital, and it is perhaps advisable not to inquire too closely as to the means adopted.

REMUNERATION OF CAPITAL.

20.—An important factor in the finance of electricity supply is the remuneration of the capital employed. I find that out of the total sum of £171,988,593 raised no less than

£150,517,903 bears fixed rates of interest, this being the aggregate of the moneys borrowed by local authorities or raised by companies in the form of loan and preference capital, leaving a sum of £21,470,690, or 12.48 per cent. of the total on which dividends are payable.

21.—Local authorities carry on their undertakings with borrowed money—they have no capital, strictly speaking. The rates of interest on the moneys borrowed for this purpose conform to those payable on loans for other municipal purposes.

22.—In the case of company undertakings the remuneration of capital has to be considered in relation to ordinary and preference shares and loan capital. The proportions in which these exist in each case is governed by the Memorandum and Articles of Association, or, in the case of power and other companies incorporated under Acts of Parliament, by the provisions of their special Acts. The loan capital is in the form of debenture stock, debentures, or mortgage loans. This loan capital is partly permanent, but a considerable part of it is redeemable at certain definite dates. The following figures show the form in which the companies' capital existed at the end of 1924:—

	£	Per cent. of total.
Loan	23,182,711	40.04
Share :		
Preference	13,247,627	22.88
Ordinary	21,470,690	37.08
Total	57,901,028	100.00

23.—The raising of capital by electric supply and power companies is not subject to the auction clauses which form such a familiar feature of gas company legislation. In the recent settlement with the London companies, however, it was provided that those companies should issue all new capital in the most advantageous form and on the best terms obtainable at the time of issue, such terms and form to be approved by the Commissioners, it being recognised that under the sliding scale arrangement, which forms an integral part of the London scheme, the consumers have a direct interest in capital being raised as cheaply as possible.

24.—The aggregate amount paid by the companies in interest and dividends during 1924 was equivalent to 7.25 per cent. on the capital raised, made up as follows:—

Interest	5.70 per cent.
Preference Dividends ..	6.08 ..
Ordinary Dividends ..	9.60 ..

The ordinary dividends paid by the companies where a separate dividend was declared may be classified as follows:

5 per cent. and under ..	16
Over 5 per cent. and not exceeding 10 per cent. ..	65
Over 10 per cent. and not exceeding 15 per cent. ..	27
Over 15 per cent. ..	7

In considering the higher rates it must be remembered that most of the companies paid little or no dividends in the early years of their undertakings. Moreover, in most cases the reserve funds are invested in the business, and in some cases capital has been issued at a premium; in other words, the amount paid in dividends applied to the capital invested in the undertaking would produce a smaller rate per cent. than when applied to the ordinary share capital only.

25.—What is a fair remuneration for capital employed in a public utility service? This question comes up for consideration when application is made on behalf of consumers for a reduction of a company's maximum price or by a company for an increase in its maximum price. A distinction may be drawn for this purpose between the original share capital and subsequent issues, and the rate fixed must have regard to the

prevailing and prospective financial and economic conditions. Under the Gas and Waterworks Clauses Acts, 1847, 10 per cent. was allowed on the share capital, and under the Power Acts passed during the period 1900-1904 8 per cent. was the rate generally fixed as a standard rate subject to increase under a sliding scale. More recently there is the precedent of the London settlement under which the companies are allowed their 1922 dividends or a dividend of 10 per cent. plus 7 per cent. on capitalised free reserves up to 1931, and after that date during their extended period of tenure up to 1971 a basic or standard rate under the sliding scale of 7 per cent. Finally, there is the 6½ per cent. recommended by Lord Weir's Committee as the rate of interest on capital attributable to the selected generating station of a company. Assuming capital to be raised by a company by loans, ordinary and preference shares in equal proportions, an average rate of 6½ per cent. on the whole would provide a dividend of, say, 8 per cent. on the ordinary.

UNREMUNERATIVE CAPITAL OUTLAY.

26.—A feature of electricity finance is the frequent necessity of incurring capital expenditure not likely to be immediately remunerative. Generating plant much in excess of present requirements has to be provided, and adequate main transmission lines laid. Authorised undertakers are protected against unremunerative outlay on low tension mains by provisions in their Acts or orders. Thus, an authorised distributor is not compelled to lay distributing mains unless the owners or occupiers will guarantee the taking of such a supply for three years at the least as will produce 20 per cent. upon the expense incurred, while power companies may require a similar guarantee for a period of seven years.

27.—The difficulty is one peculiarly affecting power companies and joint electricity authorities. The payment of interest out of capital is to be deprecated on general grounds, but is often an unavoidable necessity in the case of such expenditure. Companies have certain powers, under the Companies Acts, to capitalise interest. Local authorities have no such power under the general law, but a few towns have obtained authority by special Acts to capitalise interest in the case of certain important works. Joint electricity authorities are entitled to do so by virtue of sect. 1 (2) (b) of the Electricity (Supply) Act, 1922, which permits them to borrow for the payment of interest on capital moneys while the expenditure remains unremunerative, but in no case for a period of more than five years from the commencement of the financial year next after that in which such expenditure commenced to be incurred, and a somewhat similar provision is contained in sect. 19 of the Electricity (Supply) Act, 1919, relating to the provision of capital required for giving effect to bulk supply arrangements between two or more authorised undertakers, whether local authorities or companies.

28.—The capitalisation of interest is an expedient only to be resorted to when absolutely necessary; the prospect of adding 10 or 15 per cent. to the capital outlay as the result of capitalisation of interest is not an agreeable one.

29.—A large number of authorised undertakers have been induced by the grants offered by the Unemployment Grants Committee to carry out capital works in anticipation of requirements in order to assist in relieving unemployment. These grants in their latest form provide, so far as local authorities are concerned, (a) in the case of loan schemes for a contribution of 50 per cent. of interest for a period of fifteen years, and (b) in the case of other schemes a percentage of the wages bill of unemployed labour taken on for the work.

30.—In the case of public utility companies the grant is 50 per cent. of the interest for the unremunerative period not exceeding fifteen years.

31.—A certificate from the Commissioners that the works are suitable works of public utility is required. The loan schemes approved for grant amounted to £5,844,559 up to June 24th, 1925, and the other local authority schemes to £70,801. The grants in respect of these schemes represent a substantial subsidy from the Exchequer to the undertakings concerned.

32.—In addition, four power companies' schemes for transmission lines amounting to £255,700 have been approved for grant.

REPAYMENT OF LOANS AND DEPRECIATION.

33.—The aggregate of the sums provided for repayment of loans by local authorities in 1924-25 was £4,250,086, representing 3.54 per cent. on the capital expenditure.

34.—Loan repayment periods for buildings, plant, mains, &c., are based on the probable life of each class of asset, and the provision thus made is, therefore, the equivalent of commercial depreciation. So far as it exceeds the latter, it represents the gradual acquisition by the local authority of the unencumbered ownership of the assets. The land on which generating stations and sub-stations are built tends to increase rather than diminish in value, and by means of the repayment within 60 years of the loan raised for purchasing such land, the local authority is acquiring it on the instalment system. The same is true to a less extent of buildings the loans for which are made repayable within 30 years. As regards the wasting assets (plant and machinery, mains, meters, &c.) the sinking fund of a local authority is the equivalent of the depreciation fund of a company; the replacement of the asset is the object of both. But many local authorities aim higher, and by means of reserve funds and other appropriations from revenue provide for the cost of replacement without having recourse to a fresh loan.

35.—The total amount raised by local authorities at the end of 1924-25 was £114,087,565; the difference between this figure and the net debt (loans outstanding less sinking fund balances) which stood at £70,080,675, represents the amount of discharged debt, viz, £44,006,890, or 38.5 per cent. of the original indebtedness.

36.—The sums provided by the companies for depreciation, &c., during the year 1924 was £3,104,693, representing 4.82 per cent. on the capital expenditure. Out of the larger profits made during recent years most of the companies have set aside considerably more than they were able to do in times past, thereby making up arrears and protecting themselves against future contingencies. The aggregate total provided for depreciation and reserves stood at the end of 1924 at £13,535,763, or 21 per cent. of the capital expenditure.

37.—It has been argued that the economic changes brought about by the war, resulting in a much increased cost of renewals, necessitate a larger percentage on capital expenditure being set aside for depreciation than was required before the war. But experience of company practice in this respect goes to show that the difference between the cost of the new plant and the cost of the old does not fall on the depreciation fund or on revenue, but is charged to capital account. Thus the same percentage on the increased cost should suffice.

LOAN PERIODS.

38.—Local authorities cannot exercise the general power to borrow given to them by the principal Act without the consent of the Electricity Commissioners, who in this matter succeeded to the powers formerly exercised by the Minister of Health, the Scottish Office, and the London County Council. The practice of these sanctioning authorities differed, particularly

as regards the periods allowed for loans. Thus, it was the custom of the Ministry of Health to approve different periods for various kinds of plant, with the result that their schedule of periods was a lengthy one. The Scottish Office did not differentiate the various purposes but, as a rule, granted loans for the full statutory period of 30 years allowed by the Electric Lighting (Scotland) Act, 1902 (since increased to 60 years). The Commissioners, after consultation with the former sanctioning authorities as required by the statute, introduced a uniform system. The maximum periods allowed for repayment of loans are as follows:—

Land (freehold)	60 years
Buildings	30 "
Main transmission lines (underground)	40 "
Mains and Services	25 "
Plant	20 "
Meters, motors, &c.	10 "
Domestic apparatus	7 "

39.—These periods, although described as maxima, are allowed as a rule in normal cases, and have been found generally acceptable to local authorities. There are cases where longer periods have been obtained by means of special Acts. During the last six years the aggregate loans sanctioned by the Commissioners have amounted to nearly £70,000,000.

40.—The main duty of the loan sanctioning authority is "to guard the inheritance"; that is to say, protect the interests of future generations by not allowing the revenues of the undertaking to be unduly mortgaged and, in particular, by requiring loans to be repaid within the estimated life of the assets purchased by means of such loans. My experience is that, speaking generally, those responsible for the conduct of electricity undertakings are fully alive to the need for financial propriety in this respect and are not inclined to press for extended loan periods. Many have learned wisdom in the hard school of experience. I recall the old controversy which raged in London over 30 years ago when, at the instance of certain vestries and district boards, as they then were, the London County Council were induced to sanction an all-round period of 42 years for electricity loans (excluding land and meters), whereas the equated period based on the life of the assets was about 25 years. The plea advanced was the mistaken analogy of the 42 years' concession period allowed to the companies; the fact being, of course, that both companies and local authorities should provide for the replacement of their wasting assets during the life of those assets, which is not related to the period of the companies' concession. The necessary approval of the Treasury was reluctantly given to the 42 years period on the condition, however, that provision was made for renewals out of revenue or otherwise than by means of fresh borrowings. Between the years 1891 and 1908 £3,473,293 was borrowed by the London local authorities on this basis, although some of them adopted the alternative of loan periods based on the life of the plant and works, and to-day no less than £1,549,995 of this total is still undischarged. These figures exclude the 38 years loan of £1,400,000 allowed by Parliament for the purchase in 1904 by the St. Marylebone Borough Council of the undertaking of the Metropolitan Electric Supply Company in that borough, upon which about £890,000 is outstanding.

41.—The question of a uniform period for all electricity loans has been raised from time to time, and there are still one or two local authorities across the border who favour it. In deference to the strongly pressed requests of these bodies, and in view of certain special circumstances, the Commissioners have reluctantly agreed to make an exception to what they regard as the sound policy of a separate period for each of

the main classes of assets, but in these cases the period does not exceed the equation of the separate periods normally given for the various assets concerned. The only other exception to this policy is the allowance of a single period for the purchase of a company's undertaking. The period in such cases is determined by an equation of two items: (1) The estimated value of the wasting assets purchased is spread over the remaining life of those assets, and (2) the remainder of the purchase price, which is taken to represent non-replaceable assets (land, buildings and goodwill), is given a period of 40 years.

42.—The Public Health Act, 1875, requires the provision for repayment of loans to be made annually out of revenue and, in the absence of special powers, it is not possible for repayment to be postponed or suspended. But under sect. 2 of the Electricity (Supply) Act, 1922, the Commissioners may suspend the annual provision for repayment while the expenditure out of the borrowed moneys remains unremunerative for a period not exceeding five years from the financial year in which the expenditure commenced to be incurred. A few local authorities have availed themselves of this facility for financing large works. It is the practice in such cases not to extend the period normally granted for the loan, the result being that if suspension is allowed for the first five years in the case of a loan running for 25 years provision has to be made for repayment within the last twenty years of the term.

OBsolescence.

43.—Owing to the rapid development of electrical science and technique, the plant and machinery of electricity undertakings are peculiarly liable to become obsolescent, and undertakers are constantly faced with the desirability, if not necessity, of replacing perfectly good assets by the installation of more up-to-date plant. Despite the fact that in fixing the periods for loan repayment this contingency is taken into account, it is often found that when this substitution of plant takes place the original loan liability has not been wholly discharged. The balance of outstanding debt not met out of sale proceeds of the displaced plant is usually charged to current revenue or the reserve fund. Should a local authority find any difficulty in dealing with it, a short term loan is sanctioned so as to spread the burden over, say, three years.

44.—A company undertaking in such circumstances charges to depreciation fund or writes off capital so much of the new outlay as represents the cost of the displaced asset.

RESERVE FUNDS.

45.—The question of obsolescence emphasises the desirability of establishing an adequate reserve fund. The setting up and user of a reserve fund is governed by sect. 7 of the Electric Lighting Clauses Act, 1899, or some corresponding provision either in the Order or Special Act of the local authority. This section gives power to provide such a fund if the local authority thinks fit by setting aside such money as they think reasonable and investing it and the resulting income therefrom in statutory securities until the fund accumulates to one-tenth of the aggregate capital expenditure on the undertaking. The fund may be applied to meet any deficiency at any time happening in the income of the undertaking or towards meeting any extraordinary claim or demand in respect of the undertaking. Certain modifications in this standard clause have been obtained, more particularly in recent years, by various corporations, the general effect of which is to enlarge the purposes of the fund, and in some cases to increase its limit to one-fifth of the aggregate capital expenditure.

46.—Bearing in mind the obligation imposed on most local authorities to repay or provide for the repayment of moneys

borrowed within the life of the respective assets, the 10 per cent. is a reasonable limit, adequately representing the amount which the present-day consumers should be called upon to contribute to the future well-being of the undertaking. While recognising that the maintenance of a large reserve fund adds to the financial stability of the undertaking, it must be pointed out that if accumulated beyond reasonable limits at the expense of present-day consumers, it may be held to constitute an unnecessary endowment for the benefit of future consumers, and even to jeopardise present developments of supply by maintaining charges for current which might otherwise be reduced with good results. There are a few cases where, owing to the grant of unduly long loan periods, there is a good case for a larger reserve fund, but the 10 per cent. (which applies also to gas, water and other trading undertakings) should ordinarily be sufficient to meet the purposes for which a reserve fund is set aside.

47.—The total amount of the reserves of local authority undertakings, in addition to debt repayment sinking funds and capital expenditure met out of revenue, stood at £5,061,010 at the end of 1924-25, to which may be added £1,943,742 for balances in hand on revenue account, making a total of £7,004,752, or 5.82 per cent. on the capital expenditure.

48.—With regard to companies, in most cases the statistics do not distinguish between depreciation and reserve funds, which must therefore be considered together. The total amount in these funds at the end of the last year was £13,535,763, or, adding balances in hand on revenue account amounting to £835,229, a total of £14,370,992, or 22.3 per cent. on the capital expenditure.

PURCHASE OPTION.

49.—An important feature in the finance of company distribution undertakings is the contingency of purchase by the local authority or local authorities for the area of supply covered by the order. Undertakings of power companies established under Acts of Parliament are not subject to purchase by the local authority. As before stated, this option under the general law arises at the end of 42 years from the date of the order, but in many cases the order contains a power of purchase at an earlier date or dates upon terms which were the subject of an agreement with the local authority before the order was granted. These special terms present considerable variety, but are, in every case, naturally, more favourable to the company than the terms laid down in the Act of 1888. The latter have not yet been the subject of legal determination; they follow, with certain modifications, those applicable to the purchase of tramway undertakings under the Tramways Act of 1870, the purchase price for the undertaking being based upon the "then market value" of the lands, buildings, plant and other assets without any allowance for goodwill, but with an allowance for severance, if any.

50.—The companies have, from time to time, pointed out that the existence of this option has a hampering effect upon their finance and development, arising mainly from two causes: firstly the uncertainty as to the purchase price on the 1888 terms which makes it incumbent upon them to provide large reserves against all possible contingencies, and, secondly, the uncertainty as to the exercise by the local authority of its power of purchase, which tends to check development as the date of possible purchase approaches.

51.—With regard to the first point, the economic changes brought about by the war have exercised an important effect upon this question. "Then value" for purchase purposes means the cost of replacement less depreciation to date. But post-war and pre-war costs are very different things, and the question arises—what relation will replacement cost bear to

the original capital cost of the asset when the time for purchase arrives? In about five years time the purchase dates mature under a large number of orders granted during the years immediately following the passing of the 1888 Act. It is obvious that the effect upon the purchase price of this alteration in cost of plant will depend upon the dates when the assets in question were brought into being. Present prices, which are tending to become stabilised, show in the case of buildings more than twice pre-war costs, and in the case of plant, machinery and mains, say 15 to 25 per cent. increase. If these prices should hold good for the next few years it follows that in the case of a purchase then taking place a comparison of cost of replacement with original cost would show a substantial increase for assets created during the pre-inflation period (say, up to 1915); as regards assets bought during the period of great inflation (1915 to 1923), when building prices were 250-300 per cent. and plant 150-200 per cent. above pre-war prices, the cost of replacement would be less than their original cost, while for assets created since 1923 there would be little or no difference between the two costs. I do not propose to enter into any speculation as to the effect these considerations may have upon the question of purchase, but they have undoubtedly led to the suggestion of a new and simpler basis of purchase, viz, capital properly expended less depreciation. This basis has been adopted in the settlement with the London companies and finds expression as regards a new class of company in Clause 34 of the new Bill.

52.—Reference may be made to sect. 14 of the Electricity (Supply) Act, 1922, which enables a suspension of powers of purchase to take place under certain conditions. This can be done by an order of the Electricity Commissioners for such period and on such conditions as they may think fit, but only with the consent of the authority in whom the purchase powers are vested. The suspension order may make provision as to the relation between the prices which may be charged for electricity and the dividends to be paid by the undertakers.

53.—The primary object of this section was to permit of an extension of tenure in respect of the distribution systems of the London electric supply companies whose undertakings were purchaseable by the London County Council in 1931, but the section is of general application and should go far to relieve what has been described as "the paralysing effect on the electrical industry created by the provisions of sect. 2 and sect. 3 of the Electric Lighting Act, 1888."

54.—Apart from the case of the London companies, the Commissioners have, so far, only had to deal with one application under this section, but as the purchase dates approach other applications may be received. The section appears to contemplate the imposition of a sliding scale as one of the conditions on which an extension of tenure might be granted.

SLIDING SCALE.

55.—The sliding scale of price and dividend, which is such an important feature of gas companies' finance, is not imposed on electric supply companies by Provisional or Special Order legislation. Most of the power companies' Acts contain sliding scale provisions, some of which relate the increase of dividend above the standard rate (usually 8 per cent. on the capital) to the scheduled maximum prices, and others to a standard price which is an average price per unit. The slide in some of the scales operates upwards only; in others it operates both ways, i.e., the dividend may be increased above or decreased below the standard rate. These power company scales have, so far, been of no practical effect, as they do not operate until the company's claim to the payment of back dividends has been exhausted, and in most cases these arrears of dividend are large.

56.—Attention may be called to Clause 29 of the new Bill, which empowers the Commissioners, in cases where a company is receiving a supply of electricity directly or indirectly from the proposed Central Electricity Board to make an order imposing a sliding scale of price and dividend, the intention being that the advantage of the cheaper supply should be shared with the consumers.

57.—The principles embodied in the sliding scale, which was negotiated by the London County Council with the fourteen London companies and subsequently approved by the Electricity Commissioners and incorporated in the London Electricity Acts (Nos. 1 and 2) of 1925, may in certain respects prove a precedent for other cases. These principles are:

(1) The fixing of standard prices which, when applied to the units sold in the year prior to the fixation, will produce the standard revenue.

(2) The limitation of the companies' dividends to certain specified rates.

(3) The provision in the standard revenue for all working costs, prior charges, dividends at the specified rates, and certain sinking funds for the liquidation of the capital represented by the existing and new assets.

(4) If the total amount charged to consumers in any year is less than the amount arrived at by applying the appropriate standard prices to the number of units supplied during the year the difference is deemed to be "consumers' benefit" and the shareholders are entitled to an additional dividend equal to one-sixth of the consumers' benefit; further, a sum not exceeding one-sixth of the consumers' benefit may be applied under any approved co-partnership scheme for the benefit of the partners.

58.—There are certain other provisions relating to the accumulation of reserve funds, the limitation of the amount of carry forward, and the revision of the standard prices. Broadly speaking, the effect of the sliding scale is that the surplus profits of the undertaking, after providing for the standard rate of dividend, inure to the benefit of the consumers, shareholders and workers in the proportions of six-eighths, one-eighth and one-eighth, respectively. There must, however, have been a consumers' benefit before the other parties participate. The consumers get their share first, and the other parties only come in for a share if there are profits available to allow of such appropriations being made. The scheme is modelled on that laid down in the South Metropolitan Gas Act, 1920. It is undoubtedly cumbersome. A simpler form of sliding scale should meet ordinary cases.

ALLOCATION OF PROFITS.

59.—The question of the allocation of the surplus or profits on local authority undertakings raises an issue of considerable importance. Under sect. 7 of the Electric Lighting Clauses Act, 1899, the net surplus remaining in any year is required to be carried to the credit of the local rate or applied to the improvement of the district or in reduction of capital moneys borrowed, with the proviso that if the surplus in any year exceeds 5 per cent. on the aggregate capital expenditure on the undertaking the undertakers are bound to make such reduction in the charges for the supply of energy as in their judgment will reduce the surplus to that maximum rate of profit. This is the normal provision applying to local authority undertakings, but certain municipalities have by private Acts secured modifications of it. It has long been felt that the section requires amendment. There are many persons who advocate the elimination altogether of any power to give aid to the local rates from electricity and other similar undertakings and

the application of the whole of the surplus to reserve or the reduction of charges. This point of view appears to be supported by the action of the Local Legislation Committee in recent years. There are others who consider that while the local authority should not be compelled, as now, in certain circumstances to apply the surplus to the relief of the local rates, they should not be debarred from doing so within certain limits if they think fit. Others again, including probably ratepayers' associations, prefer that the existing provision should stand. The new Bill contains a clause which provides as follows:—

The undertakers shall apply the net surplus remaining in any year and the annual proceeds of the reserve fund when amounting to the prescribed limit—

(a) In reduction of the charges for the supply of energy; or

(b) In reduction of the capital moneys borrowed for electricity purposes; or

(c) If the reserve fund amounts to more than one-twentieth of the aggregate capital expenditure on the undertaking, to the credit of the local rate:

Provided that the amount which may be carried to the credit of the local rate in any year shall not exceed 1½ per cent. of the outstanding debt of the undertaking.

60.—It is felt that, while it is desirable to secure cheap electricity for the consumer, this desire cannot reasonably be pressed to the extent of compulsorily eliminating all element of profit from the conduct of municipal electricity undertakings, and that within limits local history and conditions may be left to exercise their influence upon the policy to be adopted by the local authority. Further, there is force in the plea that as the local rate is mortgaged for all moneys borrowed for the purposes of the electricity undertaking and is liable for any deficiency thereon, the ratepayers are entitled, if they so desire, to some benefit in return for the risk involved and the advantage which the consumers obtain by the pledging of the municipal credit. So long as the sum taken in relief of rates does not cause the prices of electricity to be raised above ordinary commercial rates the consumers have no just cause of complaint, although the adoption by the local authority of such a policy may deprive the consumers of the benefit of lower charges. The amount which under the new Bill may be carried to the relief of the local rates in any year is not to exceed 1½ per cent. of the outstanding debt on the undertaking, this percentage representing approximately the difference between municipal and commercial credit.

61.—Sums were carried to relief of rates during 1924-25 as follows:

No. of Authorities.	Amount £
1	120,000
1	70,000
8 exceeding £20,000 but not exceeding £35,000	220,910
25 exceeding £5,000 but not exceeding £20,000	251,998
60 under £5,000	101,025
95	£763,933

62.—On the other hand, deficiencies were charged on the rates during 1924-25 as follows:

No. of Authorities.	Amount. £
1	5,000
3 over £1,000 but not exceeding £3,000	4,006
10 under £1,000	4,043
14	£13,049

63.—As showing the tendency in the matter, the following table may be of interest:—

Contributions.	1921-2		1922-3		1923-4		1924-5	
	No. of Undertakers.	Amount.	No. of Undertakers.	Amount.	No. of Undertakers.	Amount.	No. of Undertakers.	Amount.
To Local Rates ..	40	£ 278,494	65	£ 448,761	91	£ 668,779	95	£ 768,968
From Local Rates ..	44	123,174	20	64,369	24	31,881	14	13,049
Net contributions to Local Rates ..	—	155,320	—	384,392	—	636,898	—	750,884

FINANCIAL RESULTS.

64.—The financial results of the operation of the public supply undertakings during the year 1924-25 were as follows:—

Total Revenue and disposal thereof.	LOCAL AUTHORITIES.			COMPANIES.		
	Amount.	Percent. of total revenue.	Per £1 of total revenue.	Amount.	Percent. of total revenue.	Per £1 of total revenue.
Revenue ..	£ 25,996,952	100.00	s. d. 20 0	£ 15,841,778	100.00	s. d. 20 0
Working expenses	14,987,629	57.65	11 6½	8,422,364	53.16	10 7½
Interest charges ..	3,621,002	14.93	2 9½	1,219,829	7.70	1 6½
Dividends (Companies) ..	—	—	—	2,730,409	17.24	3 5½
Loan Repayment, Sinking Funds and Reserve Funds (Local Authorities); or Depreciation and Reserve Funds (Companies) ..	5,271,718	20.28	4 0½	3,104,693	19.60	3 11
Contributions to Rates (Local Authorities) ..	750,884	2.89	0 7	—	—	—
Other purposes (including increase in balances) ..	1,365,719	5.25	1 0½	364,578	2.30	0 5½
	25,996,952	100.00	20 0	15,841,778	100.00	20 0

65.—The foregoing table shows how on the average every £1 of revenue obtained was absorbed or disposed of by local authority and company undertakings respectively.

66.—In judging the comparative financial results of undertakings, whether as groups or as individual concerns, carrying on public utility services, regard must be had to the prices or rates charged for the service. These largely depend upon the character of the supplies and the conditions under which the various concerns operate. These matters affect the cost at which electricity can be generated, and consequently the prices to be charged. It is, therefore, necessary in comparing results to take account of the respective load factors of undertakings, i.e., the percentage relation between the maximum demand on the generating plant installed if continuously in use, and its actual user. An undertaking which has a load factor of 20 per cent. cannot obviously generate as cheaply as one rejoining in a load factor of 40 per cent. inasmuch as the plant of the latter is used twice as much as that of the former, and consequently all fixed charges can be spread over a larger number of units.

67.—In this matter it is not safe to proceed on the basis of the average revenue obtained per unit sold. This is largely dependent upon the number of units sold for such different classes of supply as lighting, power, traction and bulk. The following table shows the revenue derived per unit sold by local authorities and companies for the various classes of supply in the year 1924-25:—

Source of Revenue.	LOCAL AUTHORITIES.		COMPANIES.	
	Amount.	Average per unit sold.	Amount.	Average per unit sold.
	£	d.	£	d.
Sale of energy to consumers:—				
Lighting and domestic ..	11,719,005	3.67	6,650,770	5.24
Public lighting ..	589,964	2.08	94,514	2.18
Traction ..	2,068,534	1.29	318,997	1.26
Power ..	9,343,636	1.10	6,188,242	1.04
Unallocated ..	41,381	2.08	43,725	3.75
	23,762,520	1.75	13,296,248	1.76
Bulk supplies (including intersales)	503,685	0.76	1,254,230	0.90
Total ..	24,266,205	1.70	14,550,478	1.63

68.—These figures show that the average revenue obtained per unit sold by local authorities approximated closely to that obtained by companies for each of the various classes of supply except for lighting and domestic, in which case it was much lower.

AUDIT AND PUBLICATION OF ACCOUNTS.

69.—All undertakers are required, under sect. 9 of the Act of 1882, to fill up and send to the Board of Trade (now Electricity Commissioners) annually a prescribed form of statement of accounts of the undertaking and to keep copies of such statement at their offices, and to sell the same to any applicant at a price not exceeding 1s. a copy. This statement of account has to be audited in the case of local authorities in the same manner as their other accounts, and in the case of companies by such competent and impartial person as the Board of Trade (now Commissioners) appoint (see sect. 6 of the Electric Lighting Clauses Act, 1899).

70.—The undertakers are required to publish this statement of accounts in such manner as may be from time to time prescribed by the Commissioners. In the case of local authorities the statement is published with their other accounts. In the case of companies the practice has been to require a copy of the statement to be sent to the local authority for the district or districts covered by the Order and to dispense with any further publication. These statements, with the auditor's report appended, are thus virtually public documents. The prescribed form contains capital, revenue and net revenue accounts, depreciation and reserve fund accounts and balance-sheet, with details not to be found in the ordinary published accounts of the companies. In any case where it is thought desirable the auditor's report, in whole or in part, may be laid before Parliament, under sect. 13 of the Electric Lighting Act, 1909.

JOINT ELECTRICITY AUTHORITIES.

71.—Three joint electricity authorities have been set up under the Act of 1919, viz, London and Home Counties, West Midlands, and North Wales and South Cheshire, but the executive powers of the last named have been transferred to the North Wales Power Company. The financial arrangements of these new bodies may be shortly described as follows:—

72.—They are empowered by sect. 1 of the Electricity (Supply) Act, 1922, to borrow money in accordance with regulations made by the Ministry of Transport with the approval of the Treasury. Under these regulations joint authorities will be provided with the usual methods of borrowing available to local authorities. The Commissioners may authorise joint authorities to raise money by the issue of stock in accordance

with regulations. The Order setting up a joint authority fixes the maximum amount which may be borrowed by them, and this amount cannot be exceeded unless in pursuance of an Order made by the Commissioners and confirmed by Parliament.

73.—Undertakers in the district of a joint authority may render financial assistance to the authority by way of loan, subscription for any securities issued, or by guarantee of interest on loans on such terms and subject to such conditions as the undertakers think fit; these powers are subject to certain limitations. The new authorities should have no difficulty in raising capital on satisfactory terms, if their loans are backed by municipal guarantees. But apart from such guarantees their stock, although not a trustee investment, should be well secured. Thus, in the case of the recently established joint authority for the West Midlands district the generating stations of the principal undertakers (whether local authority or company) are to be transferred to the authority, which will possess a monopoly of the supply of energy in bulk to the authorised undertakers concerned, and the joint authority's revenue from such supplies (based on cost plus a margin), being an operating expense of the undertakings supplied, will rank in front of the prior charges of the latter. In this respect the joint authority will be in a similar position to the London Power Company, to whose successful issue of stock reference has already been made; indeed, the joint authority's revenues may be regarded as even better secured as they will be derived mainly from local authority undertakings which rest upon the local rates as their ultimate security.

74.—Joint electricity authorities have to establish a fund to which all receipts are to be carried and out of which all payments have to be made. They are required to charge such prices for electricity as, over a term of years to be approved by the Commissioners, will produce financial equilibrium with such margin as the Commissioners may allow. Any deficiency on revenue account may be apportioned amongst the various undertakers taking a supply on the basis of the number of units supplied in the year, but the deficiency may be carried forward if small or likely to be met by the charges of any succeeding year or years. Their charging powers are thus ample.

75.—An estimate has to be prepared at the beginning of each financial year of the receipts and expenses of the joint authority for approval by the Commissioners. A distinction is drawn between revenue and expenses in respect of the supply of electricity and the administrative expenses of the authority. The net amount required to meet the latter, after deducting any contributions from constituent members (other than authorised undertakers) who are authorised but not obliged to subscribe, is made apportionable among all the authorised undertakers represented on the authority in proportion to the number of units sold by them during the preceding year. The accounts of joint electricity authorities are audited by auditors appointed by the Electricity Commissioners, who may, for this purpose, apply the provisions relating to the accounts and audit of County Councils.

76.—The administrative expenses of advisory boards are defrayed in the same manner as those of joint authorities, and are subject to the same arrangements as regards accounting and audit.

PROPOSED CENTRAL ELECTRICITY BOARD.

77.—Under the provisions of the Government Bill, the main functions of the proposed Central Electricity Board would be to construct a system of main transmission lines (commonly known as the "grid") inter-connecting certain selected generating stations with one another and with the systems of authorised undertakers, to provide for the standardisation

of frequency requisite for such inter-connection, and to control the generation of electricity by arrangements with the owners of the selected stations. It is not contemplated that the Board will ordinarily acquire or construct generating stations or carry on extensions of stations, but that this work will be undertaken and financed as now by the existing undertakers. The Board's borrowing powers are limited by the Bill to £33,500,000, estimated to be sufficient for the grid and necessary standardisation. The Treasury are to be empowered to guarantee the interest and principal of the Board's loans up to this amount. The scheme is that the capital charges on this outlay shall be added to the cost to the Board of the controlled supply of energy generated at the selected stations and recovered from authorised undertakers to whom bulk supplies are given. The Board's tariff of charges must be such that over a term of years their revenues shall balance their expenses with a margin. The security for the Board's loans, apart from the Treasury guarantee, would be the main transmission system plus the monopoly right of supplying in bulk all the energy required by the undertakers connected to the central system.

78.—On a broad view of electricity finance, the omens appear favourable. Capital for developments and new enterprises is readily forthcoming, the remuneration required for such capital is not excessive, sinking funds are maintained, depreciation and reserve funds are large, the output of energy is steadily increasing despite adverse trade conditions, and the costs of production tend to decrease, thus enabling reductions to be made in charges to consumers.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Undivided Balances—Super Tax.

The First Division of the Court of Session recently disposed of two Exchequer cases which brought under review decisions of the Commissioners for Special Purposes of the Income Tax Acts giving directions under the Finance Act, 1922, sect. 21 (1), by which the income of each of the appellant companies, David Carslaw & Sons, Limited, Glasgow, and the Glasgow Numerical Ticket and Check Company, Limited, for the year ended December 31st, 1922, was to be deemed to be the income of its members for that year and received by them on December 31st, 1922.

In both cases the companies had been private firms which were afterwards incorporated as joint stock companies, the members of the firms becoming the shareholders in the new companies. The policy of the partners in both firms, which was continued by the companies, was to leave large undivided balances.

In the case of David Carslaw & Sons, there was, on December 31st, 1922, an undivided balance at the credit of profit and loss account of £32,861, and a reserve fund of £7,500. In the case of the Numerical Printing Company the accounts showed the profits for the year ended December 31st, 1922, to be £25,553, and the balance-sheet at that date showed an undivided balance at the credit of that account of £66,891, after paying two interim dividends.

Shortly, sect. 21 (1) of the Finance Act of 1922 enacts that, with the view of preventing the avoidance of the payment of super tax in the case of any company which has not distributed to its members in such manner as to render the amount distributed liable to be included in the statements to be made by the members of the company of their total income for the purposes of super tax, a reasonable part of its actual income, the Commissioners may give notice in writing to the company that said income shall be deemed to be the income of the members and apportioned among the members. This is qualified by a *proviso* that, in determining whether or not a reasonable sum has been distributed, the Commissioners shall have regard to the requirements of the company.

On behalf of both companies it was submitted *inter alia* that there was no intention of them or their members to evade payment of super tax, and that unless such intention was proved to the satisfaction of the Special Commissioners no direction could be made under the section in question. It was also pleaded that there were special circumstances for the retention of large sums at the credit of the profit and loss account.

The Commissioners held that it was in the circumstances immaterial for them to decide whether there had been an intention to evade super tax, and they were unable to regard the probable requirements of the companies as sufficient to justify (within the meaning of sect. 21) the retention of so large a proportion of the profits for the year 1922. They accordingly held that the companies had not distributed a reasonable amount of their actual income within the meaning of the section, and confirmed the direction. The Division answered the questions submitted to the effect of holding that it was not necessary for the Special Commissioners to be satisfied that there had been an intention to evade super tax before a direction could be made, and their Lordships could not say that there was not evidence to justify the Commissioners' determination in confirming the direction.

Capital Reorganisation Meetings.

In a petition by the General Guarantee Corporation (Limited), Glasgow, to sanction a scheme of arrangement and confirmation of a special resolution for reorganisation of the share capital, it appeared that the scheme did not affect the holders of the original ordinary shares as regarded capital, but it affected them as regards profits in respect that it increased the preference dividend. No separate meeting of the ordinary shareholders had been held, but at a general meeting of the company 18,335 out of 20,000 shares voted in favour of the scheme. The Court approved of the report and sanctioned the scheme of arrangement. The Lord President said the report showed that although the compromise did affect the interests of the ordinary shareholders, no separate meeting of these was held. In the strict technical sense of the Act, there was no doubt that such a meeting was required. On the other hand, the circumstances of the case, the relations actually existing between the preference and the ordinary shareholders, and especially in light of the voting, had been explained to the Court. Except for the special character and the circumstances of this particular case, he did not think they would have acted upon the suggestion that the provision of the Act had been fairly carried out. In view of these special circumstances, however, his Lordship thought they might.

Glasgow Trades House—Income Tax Relief.

The Incorporated Trades of Glasgow (the members of which are the modern representatives of the ancient burgesses, and in many cases membership of which can only be obtained by heavy initial fees) have been involved in a dispute with the Inland Revenue Authorities. Some time ago the various incorporations were refused relief from income tax in respect of their benevolent fund on the ground that the pensions and grants given by them were not charity, being restricted to members and their dependants. Subsequently two similar cases were decided in the King's Bench Division in England in which it was held that the societies in question were entitled to a refund of the tax. Intimation has now been received in Glasgow in a number of cases that claims for repayment of income tax had been admitted, and it is expected that all the incorporations will be similarly dealt with.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g. (1925) 2 K.B.—

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*;

L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases (Scotland)*; S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; P., President of Probate, Divorce and Admiralty.]

INSOLVENCY.

Neal v. Lund.

Postponement of Wife's Claim.

The County Court Judge of Bradford held that sect. 36 (2) of the Bankruptcy Act, 1914, postponing the right of a wife to claim against her husband's estate in respect of money lent to him, does not apply where the money was lent before the marriage took place.

(C.C.; (1926) L.J.C.C.R., 54.)

Re Debtor (No. 669 of 1926); ex parte Debtors v. Petitioning Creditor.

Debt arising before but not liquidated till after act of Bankruptcy.

The Court of Appeal allowed an appeal from a receiving order made by a registrar and held at common law to constitute a good petitioning creditor debt, the liability must be able to be the immediate subject of an action at law or suit in equity, and the debt must be a debt which existed at the time of the act of bankruptcy and at that time an available debt payable and due from the debtor. The petitioning creditor's debt must have accrued due before the act of bankruptcy on which it is intended to found the petition but the debt need not have been due to the petitioning creditor at the date of the act of bankruptcy.

(C.A.; (1926) L.T.N., 137.)

REVENUE.

Inland Revenue v. Wright.

Bonus Shares and Option to take Cash.

The Court of Appeal allowed an appeal from a decision of Rowlatt (J.) and held that a shareholder who receives an allotment of bonus shares out of reserves of a company is not liable to income tax or super tax thereon, even though he might at his option have received a cash payment in lieu of shares.

(C.A.; (1926) L.J.N., 91.)

Pass v. British Tobacco Company (Australia), Limited.

British Company with Head Office in Australia.

The plaintiffs, a British company, held shares in the defendant company, which was a British company, but which had its head office and board of directors in Australia, though it had a London committee for registering transfers of shares and issuing certificates. The defendant company having declared a dividend, the Australian income tax authorities, acting under the Australian Income Tax Acts, required the defendant company to deduct the Australian income tax from the dividend due to the plaintiff company.

It was held by Tomlin (J.) that as the plaintiff company was resident in England, the debt created by the declaration of a dividend was situate in England, and the Commonwealth Legislature had no power to impose taxation on the plaintiff company in respect of such debt.

(Ch.; (1926) 42 T.L.R., 771.)